A tax-smart way to save

The Tax-Free Savings Account (TFSA)

To benefit from additional tax-free investment growth, Canadians can now contribute up to $10,000 to their TFSA effective January 1, 2015. If you haven't opened your TFSA yet, you can also make your 2009-2014 contributions, up to $5,000 per year for 2009-2012, and up to $5,500 per year for 2013 and 2014, for a total contribution of $41,000 – tax-free.

Within your RRSP or RRIF, your investment earnings grow on a tax-deferred basis, which means you don't pay tax on the earnings until you eventually withdraw them – typically resulting in faster growth. But with the TFSA, your investment earnings grow on a tax-free basis, which means you never pay tax on them – not even at the time of withdrawal. This tax-free growth enables your savings to grow much faster than they otherwise would.

A flexible savings tool

The TFSA is an extremely flexible savings account that can meet a wide range of needs. It can help you:

- Save for short-term goals like financing home renovations or long-term goals like retirement.
- Build additional tax-advantaged retirement savings above and beyond your RRSP.
- Earn tax-free income on surplus RRIF payments that you don't currently need.
- Contribute to a family member's education savings beyond their Registered Education Savings Plan (RESP).
- Reduce your family's overall taxes when you gift investable assets exposed to your higher tax rate to your lower-income spouse or adult children to contribute to their own TFSAs.
- Shelter fully taxable interest income that you are currently earning in a taxable account.
- Create a contingency fund for emergencies or time-sensitive opportunities.

How does the TFSA work?

Opening a TFSA

Any Canadian resident aged 18 and older with a Social Insurance Number can open a TFSA. In some provinces, you have to wait until you turn 19 (British Columbia, Yukon, Northwest Territories, Nunavut, New Brunswick, Nova Scotia and Newfoundland & Labrador). However, TFSA contribution room starts accumulating at age 18 regardless of your province of residence.

Making contributions

From 2009-2012, you could contribute up to $5,000 per year to your TFSA. In 2013, this amount increased to $5,500. It increased to $10,000 for 2015.

You can also gift funds to your spouse or adult child to contribute to their own plans.

- There is no income requirement to contribute to a TFSA – you can make contributions even if you have no income.
- While your contributions are not tax-deductible against your income, as they are with an RRSP, any investment income they earn accumulates tax-free.
- If you don't use all of your available contribution room in a given year, you can carry it forward indefinitely. There is no maximum age limit for contributing to your TFSA – it's a lifelong plan.

Making withdrawals

You can withdraw as much as you want, whenever you want, for whatever reason you want – and you pay no taxes on the withdrawal. What's more, any amounts you withdraw are added to your available contribution room for future years, beginning on January 1 of the following year.

Transferring your TFSA

You can transfer the assets in your TFSA at the date of your death to your spouse (or common-law partner) tax-free by naming them as the successor holder or beneficiary on your TFSA. Your spouse can transfer eligible assets to their own TFSA without affecting their available contribution room. If you do not name a successor holder or a beneficiary on your TFSA, then the TFSA assets will form part of your estate.

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