Frequently Asked Questions Regarding Tax-Free Savings Accounts (TFSAs)

What is a TFSA?

The Tax-Free Savings Account is a registered account that allows individuals to earn investment income tax-free inside a savings account.

Who is eligible to contribute to a TFSA?

Canadian residents aged 18 years of age or older may contribute to a TFSA if they have a Social Insurance Number.

As the age of majority in some provinces (including British Columbia) is 19, this may delay the opening of a TFSA. However, contribution room begins to accumulate in the year in which an individual turns 18.

How does a TFSA compare to an RRSP and a non-registered account?

RRSP contributions are tax deductible, and any withdrawals will be taxed when funds are withdrawn.

TFSA contributions are not tax deductible; however any investment income within the account will not be taxed, even when withdrawn.

The decision to contribute to a TFSA, an RRSP, or both, will depend upon an individual's income level, savings and investment objectives, as well as their current and expected future financial situation.

If the effective tax rates are the same at the time of contribution and withdrawal, the net after-tax rates of return whether investing in a TFSA or an RRSP are equivalent.

However, when an individual's income and tax bracket are expected to increase over time, a higher after-tax rate of return would be earned by contributing to a TFSA during the lower income years and making withdrawals during the higher income years.

The opposite is true with an RRSP. When an individual's income and tax bracket are expected to decrease in retirement, a higher after-tax rate of return would be earned by contributing to an RRSP during the higher income years and making withdrawals during the lower income years.

The after-tax rate of return from investing in either a TFSA or an RRSP is greater than that of a non-registered investment account.

The following table compares the after-tax return of a TFSA, an RRSP and non-registered account for an individual with a 40% tax rate for example. For illustration purposes, a one-time contribution of $10,000 is assumed.

Continued on the next page.

	TFSA	RRSP	NON-REGISTERED
Pre-tax Income Available for Investment	$10,000	$10,000	$10,000
Initial Income Tax (40% Rate)	($4,000)	–	($4,000)
Net Contribution	$6,000	$10,000	$6,000
Investment Income (20 Years at 5%)	$9,920	$16,533	$6,172[1]
Gross proceeds (Net Contribution + Investment Income)	$15,920	$26,533	$12,172
Tax on Withdrawal (40% Rate)	–	($10,613)	–
Net Proceeds	$15,920	$15,920	$12,172
Net Annual After-tax Rate of Return[2]	5.0%	5.0%	3.6%

[1] Net after-tax income, assuming tax rate of 28% to reflect a balanced portfolio earning dividends, capital gains and interest.

[2] Measured in relation to the contribution of $6,000, assuming an annual nominal pre-tax rate of return of 5% invested for 20 years.

How is an individual's TFSA contribution limit determined?

Since TFSAs were introduced in 2009, the annual contribution limit has changed as shown in the table below.

Years	Annual TFSA Contribution Limit	Cumulative Total
2009-2012	$5,000	$20,000
2013-2014	$5,500	$31,000
2015	$10,000	$41,000
2016-2018	$5,500	$57,500
2019	$6,000	**$63,500**

Any withdrawals made in the previous year will be added to the contribution room for the following year. In addition, any unused contribution room from the previous year will be carried forward to the contribution room for the following year. In 2019, the total contribution room available to someone who is 25 years or older and has never made any contributions to a TFSA is $63,500.

Who can contribute to a TFSA?

Only the registered account holder can make a contribution to their account. You may, however, give money to your spouse or common-law partner, who may make a contribution without being subject to income attribution rules.[3]

[3] However, gifted TFSA funds withdrawn and reinvested (not spent) by your spouse or common-law partner can be subject to income attribution.

Continued on the next page.

How is TFSA contribution room tracked?

Information on TFSA contribution room can be accessed through the "My Account" function on the CRA website, however, if your most recent TFSA contributions do not appear, this room may be inaccurate. It can also be calculated using form RC343 "Worksheet – TFSA contribution room" available on CRA's website.

As contributions are not tax deductible, receipts are not issued or required for filing an income tax return.

Can a beneficiary be named for a TFSA?

Yes. Under BC provincial legislation, the registered owner of a TFSA may designate a successor holder (spouse or common-law partner) and/or other beneficiaries. In the event of death, such a designation would allow for the distribution of TFSA assets to take place outside of the deceased's will and estate.

Can a TFSA be set up as a Joint Ownership or In-Trust-For account?

No. There can only be one registered owner per TFSA.

What investments are allowed in a TFSA?

A TFSA can hold most of the same qualified investments as a Registered Retirement Savings Plan (RRSP). These include mutual funds, publicly-traded securities, government and corporate bonds, GICs and, in certain cases, shares of small business corporations.

However, a TFSA is prohibited from holding investments in any entities with which the account holder does not deal at arm's length and entities of which the account holder is a "specified shareholder."[4]

[4] A "Specified Shareholder" is defined in the Income Tax Act as a shareholder of a corporation who owns directly or indirectly, at any time of the year, 10% or more of the issued shares of any class of the capital stock of the corporation or any other corporation that is related to the corporation.

Are asset-transfers or "swaps" permitted between TFSA and other accounts?

No. Effective October 17, 2009, Asset Transfer Transactions, also known as "swap" transactions, involving a TFSA are prohibited.

Although "swapping" is prohibited, contributing assets from other accounts to a TFSA "in kind" is permitted, so you do not have to sell non-registered investments before placing those in a TFSA. However, contributing non-registered securities with an unrealized loss to a TFSA will result in the denial of the capital loss. On the other hand, securities with accrued capital gains will result in taxable gains upon transfer.

Will withholding taxes be applied to U.S. sourced income?

Yes.

If an individual becomes a non-resident, how does that affect their TFSA?

When an individual becomes a non-resident, they are allowed to maintain a TFSA and not be taxed on any withdrawals or investment earnings in the account. In a year of ceasing to be a Canadian resident, an account holder can contribute to a TFSA up to the date that they become a non-resident. The annual TFSA dollar limit is not pro-rated in the year of emigration or immigration.

Continued on the next page.

Can capital losses in a TFSA be deducted or used to offset capital gains in other accounts?
No.

Is there a tax penalty for over-contributing to a TFSA?
Yes. Excess contributions will be subject to tax in the amount of 1% per month, based on the highest balance during each month that the excess remains in the plan.

Is there a requirement to begin withdrawing from a TFSA at a particular age?
No. A TFSA can be maintained throughout your lifetime.

Will contributions and withdrawals affect federal income-tested benefits?
Earnings and withdrawals from a TFSA will not affect income-tested benefits such as Old Age Security (OAS), Guaranteed Income Supplement (GIS) and the Canada Child Tax Benefit, nor federal tax credits such as the Age Credit.

Is interest on money borrowed to contribute to a TFSA tax-deductible?
No. Since investment income earned within a TFSA and withdrawals from a TFSA are not taxable, interest on money borrowed to invest in TFSAs is not deductible for income tax purposes.

Note: There is no prohibition in the Income Tax Act on an individual's ability to use their TFSA assets as collateral for a loan.

Can TFSAs be transferred upon the breakdown of a marriage or common-law relationship?
Yes, an amount may be transferred directly from one spouse or common-law partner's TFSA to the other's TFSA. This type of transfer would not change either person's contribution room. If funds are withdrawn from a TFSA and given to the other partner, TFSA contribution room would be impacted.

How will a TFSA be treated upon death of an account holder?
If the account holder's spouse or common-law partner is the successor account holder, the deceased's TFSA account can remain fully tax-exempt and the assets may be transferred to a TFSA of the surviving spouse or common-law partner, without impacting the survivor's contribution room.

If a person other than the deceased's spouse or common-law partner receives TFSA proceeds, investment income and gains accrued in the deceased's TFSA after death are taxable as income of the TFSA beneficiaries, while those accrued before death remain tax-exempt.

Are TFSA withdrawals limited?
You can withdraw up to the entire amount within the TFSA, anytime.

Information provided about the Tax-Free Savings Account is based on data available from the Canadian government and is for informational purposes only. Its accuracy cannot be guaranteed. Please consult your tax professional for more information.

January 2019