Saving for Your Future

Understanding Tax-Free Savings Accounts (TFSAs)

A Versatile Investment Option

It's easy to earn investment income tax free.

A Tax-Free Savings Account (TFSA) allows you to put your savings in eligible investments and watch it grow more rapidly without paying tax.

You can use the money, both the contributions and your earnings, any way you like. This makes TFSAs an excellent savings option for retirement, or for any other reason – from a vacation, a new car, to home renovations.

Eligibility

Anyone can set up a TFSA if they:

- Are a Canadian resident
- Are 18 years old or have reached the age of majority in their province. The age of majority is 19 in Newfoundland and Labrador, New Brunswick, Nova Scotia, British Columbia, Northwest Territories, Yukon and Nunavut. Contribution room starts at age 18 regardless of your province of residence.
- Have a Social Insurance Number (SIN)

There is no maximum age to contribute, making TFSAs a good savings vehicle for retired people, and you can have more than one TFSA, which gives you plenty of flexibility.

How to Open a TFSA

Contact your local credit union to register your savings as a TFSA. All they'll need is your SIN and date of birth in order to register the account with the Canada Revenue Agency (CRA).

You can open as many TFSA accounts as you like. You are allowed to split your contribution room between two or more TFSA accounts at different institutions, but the combined contributions cannot exceed your annual limit.

Things to consider:

- The rules do no allow joint accounts with your spouse.
- If you borrow to invest, the interest is not tax deductible.
- Government rules only permit individual accounts.
- You cannot contribute to your spouse's TFSA, but you can give your spouse money to contribute on their own, which gives them ownership of the assets and entitles them to any investment income or capital gains that are earned.

Contribution Limits

The amount you may contribute each year is set by the federal government. Talk to your credit union or visit the Canada Revenue Agency website to determine the contribution limit for this year and the total contribution room available.

Unlike RRSP contributions,the contributions to your TFSA are not tax deductible and may only be made by you, the account holder.

Maximum Contribution Room Calculator

The maximum you can contribute each year is determined by adding:

Unused contribution room at the end of the previous year

+

Contribution limit for the current year

+

Withdrawals made in the previous year

=

Your maximum contribution for this year

You need to know your contribution limit, so you don't deposit too much. Review your notice of assessment from the CRA that you receive after paying your income taxes to determine your contribution limit for the year. Alternatively, contact the CRA for information on your past transactions and your current limit.

If you contribute less than the maximum amount in a year, the difference is added to your future contribution room and can be carried forward indefinitely, allowing you to catch up in the future.

Excess Contributions

If you contribute more than allowed to your TFSA, the CRA will notify you and penalize you with a 1% tax per month on the excess, until it is withdrawn or absorbed by new contribution room the next year.

Qualified Investments

Your credit union can help you invest your TFSA contributions into eligible products, including:

- Term deposits and GICs
- Variable interest savings accounts
- Credit union shares
- Mutual funds
- Index-linked term deposits
- Bonds
- Publicly traded shares

There are restrictions on holdings in self-directed TFSAs. Talk to your local credit union to learn about those rules if you want to go this route.

Withdrawals

One of the greatest advantages of TFSA accounts is that you can withdraw funds at any time without paying tax. Withdrawals also do not impact your eligibility for federal income-tested benefits and credits such as Old Age Security, Guaranteed Income Supplement, Age Credit, GST, EI, Canada Child Benefit, and working income tax benefit.

Withdrawals from your TFSA account will increase your contribution room in the future, but not until the following calendar year or later.

Non-Resident Holder

The rules for a TFSA change if you are no longer a permanent resident of Canada.

- The TFSA remains open, but you cannot make a contribution.
- Your contribution room will not increase.
- If you do make a contribution, it will be subject to a tax penalty.
- Withdrawals are permitted and will increase your contribution room, but you cannot contribute unless you return to Canada as a resident.

To Contact the CRA

- Access My Account on the CRA website
- Call 1.800.267.6999 for the Tax Information Phone Service

CCUA ACCF
Canadian Credit Union Association
Association canadienne des coopératives financières

ccua.com