WOOD GUNDY

TAX-FREE SAVINGS ACCOUNT

An excellent way to save for your financial goals, TAX-FREE

The Tax-Free Savings Account (TFSA) can play an important role in your financial plan regardless of your stage of life. Whether you seek to supplement your lifestyle needs today or enhance your retirement income in the future, a TFSA can help you save for what matters to you.

Qualifying for a TFSA

- Must be a Canadian resident
- Must have a valid SIN
- Must be 18 years of age[1]

Eligible investments

You can hold many of the same investments in a TFSA that you can hold in your Registered Retirement Savings Plan (RRSP), including:

- Cash
- Segregated Funds
- Mutual Funds
- Stocks and Bonds
- Guaranteed Investment Certificates (GICs)

TFSA vs. RRSP

RRSPs and TFSAs offer different tax advantages.

- You may want to consider your tax rate assumptions before deciding whether to direct your funds to an RRSP or to a TFSA
  - If you expect to be in a lower tax bracket after retirement, you may wish to contribute to an RRSP to take advantage of the immediate tax deduction
  - If you expect to be in a higher tax bracket when you withdraw funds, a TFSA may be more beneficial due to the tax free treatment of withdrawals
- Your savings goals are also an important factor when deciding which account is best for you
  - If your goal is to save for retirement, an RRSP may be the better option as the tax payable on withdrawals may serve to deter early withdrawals
  - You may want to consider contributing to your RRSP and use any tax refund to contribute to your TFSA

TFSA vs. RESP

The primary benefit of a Registered Education Savings Plan (RESP) is access to the Canada Education Savings Grant (CESG) and other federal and provincial grants and bonds.

- You may contribute to both an RESP and a TFSA to take advantage of the benefits offered by both accounts
- While contributions to a TFSA are not eligible for government grants and assistance, there are no restrictions on withdrawals
- Specific conditions must be met for a subscriber (or Beneficiary) to receive a payment out of an RESP
- Educational Assistance Payments (EAPs), a payment of earnings and/or grants from an RESP, are taxed in the hands of the beneficiary
- You may want to consider contributing the maximum amount eligible for a grant to an RESP and directing the remainder of your education savings to a TFSA

TFSA key features

- Annual TFSA dollar limit of $6,500,[2] indexed to inflation
- Investments will grow tax free, provided you follow the rules on contribution limits and eligible investments
- Funds can be withdrawn at any time, for any reason
- Withdrawals are not taxable
- Amounts withdrawn are added back to your contribution room in the following year, aside from withdrawals made to correct over contributions
- Unused contribution room can be carried forward indefinitely
- TFSA contribution room will accumulate even if you do not have any earned income in a year
- A TFSA holder may designate a spouse or common law partner as a successor holder and upon death the successor holder essentially takes over the TFSA account tax free[3]

Things to remember

- Over-contributions to a TFSA are subject to a 1% monthly penalty tax on the highest amount of over-contributions for the month; the penalty tax will continue to be charged until the excess amount is withdrawn or absorbed by new TFSA contribution room[4]
- Non-qualified and prohibited investments within a TFSA result in a tax penalty of 50%[5] of the fair market value at the time of acquisition or when the investment became non-qualified or prohibited, payable by the account holder. Investment income earned on the non-qualified or prohibited investment while held in the TFSA will be 100% taxable to the TFSA account holder
- Upon becoming a non-resident, you can continue to hold a TFSA, and savings will continue to grow tax free from a Canadian tax perspective, but contribution room will not accumulate. Contributions made while a non-resident are subject to a 1% penalty tax

[1] Individual must be age of majority in order to open a CIBC Wood Gundy brokerage account.

[2] The annual dollar limit between 2009 and 2012 was $5,000. In 2013 and 2014 the annual dollar limit was $5,500. In 2015 the annual dollar limit increased to $10,000, and was reduced back to $5,500 for 2016 – 2018. $6,000 from 2019 to 2022. As of January 1, 2023 the annual contribution increased to $6,500.

[3] Quebec does not allow beneficiary designation on certain types of TFSAs.

[4] Over contributions deemed by CRA to be deliberate are subject to a higher penalty tax of 100%.

[5] The 50% penalty tax may be refundable in certain circumstances.

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