

Frequently Asked Questions about Tax-Free Savings Account (TFSA)

1. What is a TFSA?

The TFSA is a savings vehicle that allows Canadians to save money every year without accruing any tax liability. The major selling point of the TFSA is that investment income and capital gains can accrue TAX-FREE. This even applies when you withdraw the money from your TFSA.

2. When did the new TFSA become available?

The Tax-Free Savings Account was introduced by the Federal Government in last year's budget and became available to investors on January 2, 2009.

3. Who can open a TFSA?

TFSA's are available to Canadian residents who are 18 years of age and older and have a valid Social Insurance Number. There is no maximum age for contributions.

4. How much money can be put into a TFSA?

The contribution amount on a TFSA is up to \$5,000 in the initial year. Thereafter annually, the TFSA \$5,000 contribution dollar limit will be indexed to the inflation rate. The indexed amount will be rounded to the nearest \$500 increments. Any unused contribution room will accumulate and be carried forward indefinitely.

5. What happens if I contribute more than my limit?

Like an RRSP, if the account holder deposits more than his or her contribution limit for a calendar year, the Canada Revenue Agency will charge a monthly penalty of 1% on the highest excess amount at any time in that month.

6. How is a TFSA different from an RRSP?

	TFSA	RRSP
Contributions	Not tax-deductible	Tax-deductible
Withdrawals	Tax-free. Withdrawals are added to contribution room effective the following year.	Taxed as earned income. Withdrawals are final and you lose that contribution room.
Contribution room	\$5,000 per year. Unused contribution room can be carried forward indefinitely. There is no maximum age.	Based on a percentage of earned income from the previous year. Unused contribution room can be carried forward indefinitely.
Age requirements	Must be 18 years of age or older to be eligible.	Must be converted to a RRIF or an annuity at age 71.
Saving for a home	Contribute to increase savings for a home purchase. Not required to repay.	Contribute to an RRSP and use the Home Buyers Plan to help purchase a home. You must repay this money to your RRSP over a specified period.
Saving for an education	After taking advantage of the Canada Education Savings Grant from the first \$2,500 annually contributed to an RESP, use a TFSA to save for an education.	Contribute and use the Lifelong Learning Plan to pay for your education. You must repay this amount to your RRSP. You will be taxed and you won't get the contribution room back.
Retirement income	Already taxed money so not taxed again.	Taxed at tax rate in retirement. Generally, income will be equal or lower in retirement.

7. Do I have to save the money in the account for a certain period of time?

No. There is no need to save the money in the account for a certain period of time.

8. Can I use the money only for specific purposes?

No. The money in a TFSA can be used for any purpose. For example, you can use your TFSA savings to buy a new car, pay for school, take a family vacation, finance home renovations or put more money away for retirement or a rainy day.

9. Are the TFSA contributions tax deductible?

No. TFSA contributions are not deductible on income tax returns.

10. Are the withdrawals taxed in a TFSA?

Withdrawals (including the capital and earned income) are not taxable to investors.

11. When you make a withdrawal, do you get the contribution room back?

Withdrawals (including the capital and earned income) are not taxable to investors, but those same withdrawals will also create new contribution room equal to the withdrawal amount. However the account holder may not re-contribute the amount withdrawn by making a deposit in the same year (unless he or she has unused contribution room available). The amount withdrawn will be added to the available contribution room allocated for the next year.

Here is an example: if an account holder deposits \$5,000 in their TFSA in May 2009 and in October 2009 they withdraw \$1,000. The withdrawal amount of \$1,000 will be added back to their 2010 contribution room. They will not be able to re-deposit the \$1,000 until 2010, in addition to the \$5,000 allocated for 2010 (assuming there is no indexing in 2010).

12. Are transfers allowed through a TFSA?

Yes, but only between other TFSA plans or upon marriage breakdown.

13. Are loans allowed in a TFSA?

No, not from the TFSA plan, but the TFSA can be used as collateral for a loan (the interest on the monies borrowed is not tax deductible). However, account holders can borrow monies for deposit in a TFSA.

14. Are there any other tax benefits?

Unlike an RRSP, the TFSA is exempt from claw backs on the eligibility for federal income-tested government benefits and credits like Old Age security or the GST credit.

15. Can I have more than one TFSA?

Yes, each eligible person can have more than one Tax-Free Savings Account - as long as the total amount contributed each year does not exceed your personal contribution room.

16. Can I contribute on behalf of my spouse?

No, you may not contribute directly to your spouse's TFSA. However, you may provide money to your spouse for contribution to a TFSA and these would be no attribution of income to you.

17. Where can I find out more information about the TFSA?

Speak to your advisor if you have any questions about Tax-Free Savings Accounts. You can also visit the Government of Canada website at <http://www.tfsa.gc.ca>, where you will find useful information about Tax-Free Savings Accounts.