THE TAX-FREE SAVINGS ACCOUNT (TFSA)

- **The Tax-Free Savings Account (TFSA)** allows Canadians, age 18 **and** over, to set money aside tax-free throughout their lifetime
- All income earned and withdrawals from a TFSA are tax-free

Eligibility:

- Any individual who is 18 years of age or older and is a resident of Canada is eligible to open a TFSA account

Contribution limit:

- You get a contribution room of $5,000 per year since January 2009 (provided you were 18 or older in the year).
  - Therefore, John who is looking into opening a TFSA account, and was 20 years old in 2009, can contribute $5000*4 = $20,000 into a TFSA account in 2012.
- This $5,000 accumulation of TFSA room applies, even if you did not open a TFSA in the prior years.

- Unused contributions can be carried forward forever
- **Withdrawals increase (replenish) the TFSA**; this means that current year withdrawals will be added to your TFSA contribution room at the beginning of the following year.
- If you make a withdrawal, you need to wait till next year before you can re-contribute (unless you have the room to contribute it back this year - see below)
- You can make spousal TFSA contributions, **no attribution rules apply for TFSA**

Qualifying Investments: What Investments can you hold under a TFSA?

1. Shares listed on the stock exchange (publically trades shares) - no tax on capital gains
2. Mutual Funds
3. Bonds - no tax on interest
4. Annuities
5. Cash
6. Guaranteed investment certificates (GICs)
7. Certain shares of small business corporations (you, your spouse or a related party cannot own > 10% of the shares)

$$\begin{aligned}&\boldsymbol{Contribution\ Limit\ formula} = \\ &Unused\ Contribution\ Room\ from\ \boldsymbol{last\ year} + \\ &\$5{,}500\ for\ current\ year\ (2013) + \\ &TFSA\ Withdrawals\ from\ \boldsymbol{last\ year} - \\ &Contributions\ made\ to\ date\ in\ current\ year\end{aligned}$$

Note:

- Annual dollar limit from 2009-2012 = $5,000
- Annual dollar limit for 2013=$5,500
- So if you did not contribute anything at all into a TFSA yet you have a contrib. room of $5,000*4+5,500=$25,500

In-Kind Contributions: Contributing /transferring non-cash assets (investments) to TFSA

- "In kind" contributions can be securities you hold in a non-registered account as long as the investment is one of the ***qualifying investments*** mentioned above.
- There will be a **deemed disposition** of the investment at its fair market value (FMV) at the time of the contribution to the TFSA
- If the cost of the investment is more than its FMV, you cannot claim a capital loss. However, if the fair value > than the cost; there will be a capital gain
    - Therefore, the rules make it very unfavourable to transfer investments to a TFSA
- The amount of the contribution to your TFSA will be equal to the FMV of the property.
- You are still subject to the contribution limit

Things to Note:

- Not all TFSA investments are liquid
    - You can have GIC's in your TFSA, the problem is that there are maturity dates you need to adhere to; however, you can still pull out the interest tax free
- Attribution rules stop when under a TFSA;
    - therefore income earned from a spousal TFSA contribution does not get attributed back to the contributing spouse
- You are allowed to invest in foreign investments; however, the dividend income may be subject to foreign withholding taxes