

The Tax-Free Savings Account – Frequently Asked Questions

The Tax-Free Savings Account (TFSA) is a savings vehicle that has been in effect since 2009 and allows Canadian residents to earn income (including investment income and capital gains) on a tax-free basis. This article addresses some of the common questions that investors may have regarding this valuable savings tool.

Eligibility

Q. Who is eligible to contribute to a TFSA?

A. A Canadian resident who is 18 years of age or older, and holds a valid social insurance number may contribute to a TFSA.

Q. Can I hold more than one TFSA?

A. Yes. You can hold more than one TFSA at any given time, but the total amount that you contribute to all of your TFSAs cannot be more than your available TFSA contribution room for that year in any year (see below).

Contributions

Q. How much can I contribute to the TFSA?

A. Your contribution room is based on the total of the following three amounts:

1. The annual TFSA contribution limit for the year. More specifically,
 - for each calendar year from 2009 to 2012, the TFSA contribution limit was \$5,000;
 - for 2013 and 2014, the TFSA contribution limit was \$5,500; and
 - based on the 2015-2016 federal budget, the TFSA annual contribution limit is \$10,000 for 2015 and subsequent taxation years.

The limit is subject to change by the federal government, and starting in 2015, the limit will not be indexed to inflation.

2. Any withdrawals from the TFSA in the previous year.



3. Any unused TFSA contribution room since 2009.

There is no limit on either the amount of contribution room that can be carried forward or on the number of years that the amount can be carried forward. The TFSA also has no lifetime contribution limit.

Q. How can I find out what my TFSA contribution room is for a given tax year?

- A.** Your TFSA contribution room information can be found by going to one of the following services:
- “My Account” or “MyCRA” portals on the Canada Revenue Agency (CRA) website;
 - CRA's Tax Information Phone Service; or
 - Your *TFSA Room Statement*, if requested by contacting the CRA.

You should also ensure that you retain all transactional records for your own accounting.

Q. What happens if I exceed my contribution room?

- A.** Excess contributions to a TFSA will be subject to a penalty tax equal to 1% per month based on the highest excess TFSA amount in that month. The penalty will be calculated on a monthly basis until the excess amount is withdrawn.

Account and Investment Types

Q. Can I open a TFSA in joint names, a spousal TFSA, an In-Trust for TFSA or a TFSA in the name of my corporation?

- A.** No. Legislation only permits individual TFSAs.

Q. What are qualified investments for the purposes of the TFSA?

- A.** Generally, the types of investments that will be permitted in a TFSA are the same as those permitted in a RSP, including Guaranteed Investment Certificates (GICs), bonds, publicly traded shares, mutual funds, and certain shares of small business corporations. However, there are some exceptions. For example, a TFSA cannot hold the following prohibited investments:

- a debt of the TFSA holder; or
- a share of the capital stock of, an interest in, or a debt of (i) a corporation, partnership or trust in which the TFSA holder has a significant interest, or (ii) a person or partnership that does not deal at arm's length with the TFSA holder.

If you hold any prohibited investment in your TFSA, you may be liable for a penalty tax of 50% of the fair market value (FMV) of such investment at the time it is acquired by the TFSA (or at the time it becomes prohibited). In addition, any income or capital gains earned on the prohibited investment may be taxable.

Q. Can I make a contribution to my TFSA by transferring property "in-kind"?

- A.** Yes. TFSA contributions can be made by transferring property "in-kind," provided that the property is a qualified investment and not a prohibited investment. You will be considered to have disposed of

the property at its FMV at the time of the contribution. If the FMV exceeds the cost of the property, you will have to report the capital gain on your income tax return. However, if the cost of the property exceeds its FMV, you will not be able to claim the resulting capital loss. The amount of the contribution to your TFSA will be equal to the FMV of the property.

Withdrawals and Transfers

Q. Are there any restrictions on withdrawals from the TFSA?

A. You can withdraw any amount from the account at any time for any reason, subject to any restrictions in the investments held in your plan.

Q. If I make a withdrawal from a TFSA, can I re-contribute the amount withdrawn back to a TFSA in the same year?

A. Amounts withdrawn from a TFSA in the current year will be added back to your contribution room in the following calendar year. Therefore, you can only contribute to a TFSA in the same year if you have TFSA contribution room available. If not, you will have to wait until the following year to make the contribution without incurring any penalty.

Q. Can I transfer my TFSA from one financial institution to another?

A. Yes, you can transfer your TFSA from one financial institution to another. A transfer fee may apply.

Q: Is the transfer of a TFSA between financial institutions treated as a withdrawal or contribution?

A: No. Provided that a transfer between financial institutions is processed as a direct transfer, it will not be considered as a withdrawal or contribution.

Tax Implications

Q. Are contributions to the TFSA tax-deductible?

A. No. TFSA contributions are not tax-deductible. However, you do not have to pay tax on any investment income earned inside a TFSA, nor on any withdrawals from a TFSA. Similarly, you will not be able to claim any investment losses incurred inside a TFSA.

Q. Will there be any impact on my taxes and federal income-tested benefits or credits if I withdraw funds from my TFSA?

A. No. Since neither income earned within a TFSA nor withdrawals are included in income, they will have no impact on your eligibility for federal income-tested benefits or credits, such as the Old Age Security, the Guaranteed Income Supplement or the Canada Child Tax Benefit.

Q. If I borrow money to invest in my TFSA, is the interest tax-deductible?

A. No. Interest on money borrowed to invest in a TFSA will not be deductible for tax purposes.

Q. If I gift funds to my partner or adult child, and he/she invests in a TFSA will the investment income earned be attributed back to me?

A. No. The income attribution rules will not apply in this case, since the investment income earned in a TFSA is not taxable.

Marriage / Relationship Breakdown

Q. If my marriage or common-law partnership breaks down, what will happen to my TFSA?

A. TFSA assets may be transferred directly between spouses or partners upon marriage or common-law partnership breakdown without affecting either individual's contribution room if the transfer is a qualifying transfer. In that case, the TFSA assets will continue to retain TFSA status in the hands of the recipient. A transfer is qualifying so long as the following conditions are met:

- You and your spouse/partner are living separate and apart at the time of the transfer; and
- The transfer is made according to a decree, order or judgment of a court or under a written separation agreement, relating to a division of property on breakdown of the marriage or common-law partnership.

When these conditions are met, the transfer will not reduce the recipient's eligible TFSA contribution room. Since the transfer is not considered a withdrawal, the transferred amount will not be added back to the payer's contribution room at the beginning of the following year. Also, the transfer will not eliminate any excess TFSA amount, if applicable, in the payer's TFSA.

Death

Q. What happens if I want to designate my surviving spouse or common-law partner as the successor holder of my TFSA?

A. If the surviving spouse or common-law partner is named as the "successor holder," he or she becomes the new holder of the TFSA immediately upon the death of the original holder. The TFSA will continue to maintain its tax-exempt status and it will not affect the surviving spouse/partner's own TFSA contribution room.

Note: Certain conditions may apply in this situation. Please consult with your advisor or lawyer for guidance.

Q. What happens if I want to designate my surviving spouse or common-law partner as the beneficiary of my TFSA?

A. A surviving spouse or common-law partner who is named as a beneficiary has the option to contribute and designate all or a portion of a survivor payment as an exempt contribution to their own TFSA, without affecting their own unused TFSA contribution room, as long as they meet certain conditions and limits.

For the survivor to designate an exempt contribution, the amount must be received and contributed to their TFSA during the rollover period. Also, the survivor must designate their survivor payments as an

exempt contribution on *Form RC240, Designation of an Exempt Contribution Tax-Free Savings Account (TFSA)*, and submit the designation within 30 days after the day the contribution is made. The total exempt contributions designated during the rollover period cannot exceed the FMV of the deceased holder's TFSA at the time of death.

Generally, if the TFSA of the deceased holder includes an excess TFSA amount at the time of death, if payments are being received by more than one survivor, or if the survivor payment and/or the contribution is made after the rollover period, no amount of the survivor payment may be designated as an exempt contribution.

Q. What happens if I want to designate my adult child(ren) or anyone other than my spouse or common-law partner as beneficiary(ies) of my TFSA?

A. Generally, a designated beneficiary will not have to pay tax on payments made out of the TFSA, as long as the total payments do not exceed the FMV of all the property held in the TFSA at the time of the holder's death. Beneficiaries (other than a surviving spouse/partner) can contribute any of the amounts they receive to their own TFSA as long as they have unused TFSA contribution room available.

Q: Can I designate a successor holder and/or a beneficiary on the TFSA?

A: Yes. All provinces and territories (with the exception of Quebec) allow you to designate a successor holder and/or one or more beneficiaries on your TFSA account or in your Will.

U.S. Citizens/Green Card Holders

Q. Should I contribute to a TFSA if I am a U.S. citizen or green card holder who resides in Canada?

A. If you are a U.S. citizen or green card holder residing in Canada, you should consult a tax professional before deciding whether to contribute to a TFSA. The income earned inside a TFSA, while tax-free for Canadian tax purposes, may be taxable for U.S. tax purposes.

Other Features

Q. Is a TFSA creditor-protected?

A. Federal legislation provides protection only to RSPs and Registered Retirement Income Funds (RIFs) in the event of bankruptcy.

Q. What is the tax treatment of fees relating to a TFSA?

A. CRA has indicated that:

- The payment of management fees by a TFSA account holder will not constitute a contribution to the TFSA;

The Tax-Free Savings Account – Frequently Asked Questions

- The payment of investment counsel fees by a TFSA will not be treated as a withdrawal from the TFSA; and
- Any fees paid are not deductible for income tax purposes.



The information contained herein has been provided by TD Wealth and is for information purposes only. The information has been drawn from sources believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. The information does not provide financial, legal, tax or investment advice. Particular investment, trading or tax strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Wealth, The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered. TD Wealth represents the products and services offered by TD Waterhouse Canada Inc. (Member – Canadian Investor Protection Fund), TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company).

® The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.

Revised 8/5/2015