TD Wealth

The Tax-Free Savings Account

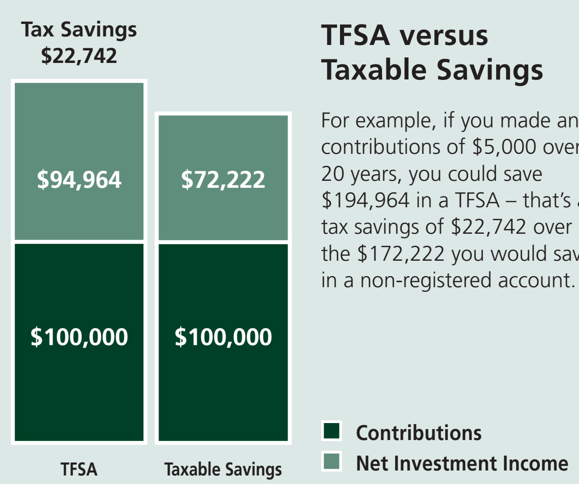
Finding opportunities to build assets and minimize taxes is key to a successful financial plan. The Tax-Free Savings Account (TFSA) provides Canadians a tax-free savings vehicle.

With a TFSA, you can –

- Contribute up to $5,500[1] a year. Unused contribution room will be carried forward indefinitely
- Pay no tax on investment income or growth in the account
- Withdraw your money for any purpose at any time[2] and pay no tax on withdrawals
- Re-contribute any amounts[3] you withdraw during the year following the year of withdrawal or later

These unique features make a TFSA an effective short- or long-term asset-building tool. It can be easily used as part of your retirement strategy or to save for a not-too-distant purchase.

TFSA investment strategies



TFSA versus Taxable Savings

For example, if you made annual contributions of $5,000 over 20 years, you could save $194,964 in a TFSA – that's a tax savings of $22,742 over the $172,222 you would save in a non-registered account.

Chart is for illustrative purposes only.

Assumptions: This example assumes a 6% rate of return, and a 40% tax rate with a 20% annual turnover (or average five-year holding period).

Tax-free growth

You pay no tax on the interest income, dividends or capital gains generated by the investments in your TFSA. And that tax-free growth can help you build your savings faster.

Tax-free access to your money

With a TFSA, you can make withdrawals whenever you want[2] and not pay any tax. That makes the TFSA ideal for both short- and long-term savings, and also gives you flexible access to your money if an unexpected need arises.[2]

Money withdrawn from TFSAs is not included in determining eligibility for federal income-tested benefits or credits such as the Canada Child Tax Benefit, the GST credit or medical credit.

The freedom to re-contribute

Another advantage of a TFSA is that you can re-contribute any withdrawals made in the previous year in the year after you withdraw them or later.

For example, say you had saved $3,000 a year over 10 years in your TFSA. You want to start your own business, so you withdraw all of the money in your TFSA, which has accumulated to $40,000, tax-free. The following year, the $40,000 is added back to your contribution room.

After 10 years of running your business, you sell it. If you have not already done so, you can then use the money from the sale to re-contribute all or part of the original $40,000 you withdrew.

Income splitting

The TFSA offers Canadians an income-splitting strategy. You can gift or loan your spouse or common-law partner money which they can then contribute to their own TFSA. This allows you to effectively split income, and any income your spouse or common-law partner earns in their TFSA would not be attributed back to you.

Estate planning

You have several options regarding what will happen to your TFSA after your death:

1. You can name anyone as the beneficiary of your TFSA. If you choose to name your spouse or common-law partner, and they survive you, the assets in your TFSA can be transferred to their TFSA. Any income and/or growth after the date of death is generally taxable; however, they could transfer the amount received, up to the value at the date of death, to their own TFSA without affecting their contribution room.
2. You can maintain the tax-free status of the earnings in your account by designating your spouse or common-law partner as the successor holder.

Eligibility

You are eligible to open a TFSA if you –

- Are at least 18 years of age[4]
- Are a Canadian resident
- Have a valid Social Insurance Number

There is no upper age limit on TFSA contributions and contribution room is not tied to earned income, so you can continue contributing and enjoying tax-free growth even after you retire.

A solution for every stage of life

At TD Wealth, our entire approach is based on understanding your goals and providing comprehensive and integrated solutions at every stage of your life. One of the positive aspects of a TFSA is that it can fit into your financial strategy no matter what your age or stage.

Starting out

In your early adult saving years, a TFSA fits naturally as an all-purpose savings vehicle. Whatever your savings goals – a house, a car, a home renovation, travel or emergency savings – the tax-free growth provided by a TFSA can help you reach them faster. You can also access your money when you want it[2] and re-contribute any amounts you withdraw the following year, meaning you never lose your contribution room.

Planning for retirement

During your investment years, when your main focus is on planning for the kind of retirement you've dreamed of, a TFSA can be an excellent way to complement your retirement plan. A TFSA is a convenient place to put surplus savings or to move taxable investments so that they can grow tax-free. If you are making your maximum RSP contribution each year, a TFSA enables you to accumulate additional tax-free assets.

Enjoying retirement

In your retirement years, a TFSA provides you with the ability to shelter your non-registered investments from tax. Neither the income you earn in a TFSA nor the withdrawals you make from it affect your eligibility for federal income-tested benefits and credits such as Age Credit and Old Age Security, and they don't trigger an OAS clawback. And because there is no upper age limit on a TFSA, you can continue contributing to it and getting the benefits of tax-free growth throughout your retirement.

Your TFSA investment options

At TD Wealth, you can put your money into a wide range of qualified investments, including GICs, mutual funds, and individual stocks and bonds. You will have access to TFSA investments that fit your overall investment strategy and can help you reach your short- or long-term goals.

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[1] The TFSA contribution limit for 2013 is $5,500. This limit is indexed to inflation. The annual TFSA contribution limit was $5,000 from 2009 to 2012. The annual TFSA contribution limit is subject to change by the federal government. Excess contributions to a TFSA will be subject to a penalty tax of 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. [2] Some restrictions may apply, depending on the investments chosen. [3] The amount you withdraw is added to the contribution room in the following year. [4] At TD, you must have reached the age of majority in your province to open a TFSA.

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