



The Tax-Free Savings Account (TFSA) is a new savings vehicle that, starting in 2009, allows Canadian residents to earn investment income (including capital gains) on a tax-free basis. This article addresses some of the common questions that investors may have regarding this valuable new savings tool based on information available as of October 1, 2008.

Eligibility

Q. Who is eligible to open a TFSA?

A. A Canadian resident who is 18 years of age or older, and who holds a valid social insurance number may open a TFSA. Note: residents of provinces and territories where the age of majority is 19 (British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut and Yukon) will not be able to open a TFSA with TD Waterhouse until they reach age 19; however, the accumulation of contribution room will start at age 18.

Q. Can I hold more than one TFSA?

A. Yes. You are permitted to own more than one TFSA; however, your total contributions across all TFSAs cannot exceed your TFSA contribution room (see below).

Contributions

Q. How much can I contribute to the TFSA per year?

A. Your contribution room each year is made up of the total of three amounts:

1. The TFSA dollar limit for the year (which is \$5,000 for 2009 but will be indexed to inflation each year thereafter and rounded to the nearest \$500);
2. Any withdrawals made in the previous year, and
3. Any unused contribution room from the previous year.

Here's an example (assume no indexing):

- In 2009, Joe has contribution room of \$5,000. He only contributes \$4,000 to his TFSA. Therefore, he can carry forward \$1,000 to 2010.
- In 2010, Joe's contribution room becomes \$6,000, which is made up of \$5,000 (2010 dollar limit) + \$1,000 (2009 unused contribution room). In 2010, Joe does not contribute at all to his TFSA and withdraws \$2,000 from it.
- In 2011, Joe's contribution room becomes \$13,000, which is made up of \$5,000 (2011 dollar limit) + \$6,000 (2010 unused contribution room) + \$2,000 (amount withdrawn in 2010).

There is no limit on either the amount of contribution room that can be carried forward or on the number of years 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. The Canada Revenue Agency (CRA) will report TFSA contribution room on the Notice of Assessment for individuals who file an annual T1 individual income tax return.

Q. What happens if I exceed my contribution room?

A. Excess contributions to a TFSA will be subject to a penalty tax of 1% per month for each month until the excess amount is withdrawn.

Account and Investment Types

Q. Can I open a TFSA in joint names with another person, a spousal TFSA, a TFSA in trust for my children or a TFSA in the name of my corporation?

A. No. Legislation only permits individual TFSAs.

Note that although you cannot directly contribute to your spouse's or common-law partner's TFSA as you can with a spousal RSP, you can provide funds to your spouse or common-law partner to contribute to his / her own TFSA, and any income he / she earns on those TFSA assets will not be attributed back to you.

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

A. Generally, investments that are qualified investments for the purposes of RSPs are also qualified investments for the purposes of the TFSA, including GICs, bonds, publicly traded shares, mutual funds etc. There are some exceptions though. For example, you cannot hold your mortgage in your TFSA nor can you hold the shares of a company of which you own 10% or more of the shares. If you hold either of these securities in your TFSA, you may be liable for a penalty tax of 50% of the fair market value of the non-qualified or prohibited investment at the time it is acquired by the TFSA. In addition, any income or capital gains earned on the prohibited investment may be taxable.

Q: Can I hold US\$ denominated investments in my TFSA?

A: Yes. You can hold US\$ denominated investments (e.g. US\$ mutual funds) in your TFSA; however, contributions and any proceeds from the subsequent disposition of the investment will be converted to Canadian dollars for CRA reporting purposes.

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 the property is a qualified investment and not a prohibited investment. The amount of the contribution will be equal to the fair market value of the property at the time of the transfer. The property will be deemed disposed at the time of the transfer and any capital gains will be realized, but any capital losses cannot be claimed.

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. However, depending on the types of investments held in the account, administration fees may apply.

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 the next 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 financial institution. 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 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 the TFSA nor on any withdrawals from the TFSA. Similarly you will not be able to claim any investment losses incurred inside the TFSA.

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

A. No. Since TFSA withdrawals are not included in income, they will have no impact on your eligibility for **federal government** income-tested benefits or credits such as the Old Age Security (OAS), Guaranteed Income Supplement (GIS), Canada Child Tax Benefit (CCTB) or the Age Credit.

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 spouse/common-law partner or to my adult child, and he/she invests in a TFSA will the investment income earned be attributed to me?

A. No, the income attribution rules will not apply in this case.

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 between spouses/common-law partners on marriage or relationship breakdown. The TFSA assets will continue to retain TFSA status in the hands of the recipient. The transfer will not reinstate contribution room of the transferring spouse or reduce the contribution room of the recipient spouse.

Death

Q. What happens to a TFSA on death?

A. Earnings accrued in a TFSA before the account holder's death will be tax-exempt; but earnings accrued after death will be taxable. On death, your TFSA can

- be paid out to your beneficiaries tax-free subject to certain conditions;
- be transferred to your spouse or common-law partner's TFSA if he/she is the beneficiary; or
- continue with your spouse or common-law partner as the successor holder.

Note that provincial law governs beneficiary designations and those laws have not yet been amended to cover TFSAs. Consequently, beneficiary designations can be made through a Will (or in Quebec, through a Will or a marriage contract), but at this time they cannot be made through the plan.

Q: Can I designate a beneficiary on the TFSA to avoid probate?

A: No. Provincial laws do not currently recognize beneficiary designations made in TFSA account applications; therefore, unless you designate a beneficiary in your Will (or in Quebec, through a Will or a marriage contract), your TFSA assets will form part of your estate.

Non-residents

Q. If I am a non-resident of Canada, am I allowed to open a TFSA?

A. No. Only Canadian residents can open TFSAs.

Q. If I have a TFSA but subsequently emigrate from Canada, am I allowed to (i) maintain my TFSA, (ii) continue to contribute to my TFSA, or (iii) withdraw funds from my TFSA?

A. If you become a non-resident of Canada:

(i) You can continue to maintain your TFSA and any investment earnings in the account or on withdrawals from it, will not be subject to Canadian tax. You should however determine the tax status of the TFSA in your new country of residence by checking with a qualified tax professional in your new jurisdiction.

(ii) Any contributions made while you are a non-resident will be subject to a 1% per month special tax until you withdraw the amount and designate it as a withdrawal of a non-resident contribution. In addition, no contribution room will accrue for any year in which you are a non-resident. Your TFSA will continue to grow on a tax-free basis in Canada and you will not be subject to any Canadian withholding taxes on withdrawals. (To determine the tax treatment of the TFSA in your new jurisdiction you should consult a tax advisor in your new country of residence).

(iii) You may withdraw funds from your TFSA while you are a non-resident. Withdrawals are not subject to Canadian non-resident tax. Any withdrawal made while you are a non-resident will be added back to your unused TFSA contribution room in the following year, but you may only utilize the contribution room if you subsequently become a Canadian resident again.

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. Can I use my TFSA assets as security for a loan?

A. Yes. TFSA assets can be used as security for a loan.

Q. Is TFSA creditor-protected?

A. No. Unlike the RSP, there is currently no creditor protection for the TFSA.

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 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.

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