

Tax-Free Savings Account

The Tax-Free Savings Account (TFSA) is a savings plan that allows Canadians to invest and earn tax-free returns. Any income (interest, dividends, and capital gains) earned is tax-free.

Features

- A variety of investments can be held in a TFSA (e.g. cash, GICs, mutual funds, bonds, and stocks).
- You can contribute up to \$6,000¹ a year.
- There is no tax on interest, other investment earnings or capital gains.
- Withdrawals are tax-free and you can make withdrawals at any time.
- Withdrawn amounts can be re-contributed in later years.
- Unused contribution room is carried forward indefinitely.²
- There are no restrictions on how the funds are used once withdrawn.
- Withdrawals do not affect eligibility for federal government benefits.

Who's eligible?

The TFSA can be opened by a resident of Canada who has reached the age of majority. Although for some provinces the age of majority is 19, a Canadian resident that is 18 years old would still accumulate contribution room this year for the following year even if they are not eligible to open the account yet.

Although a TFSA can be maintained when the account holder becomes a non-resident of Canada, no contribution room accrues for any year throughout which the individual is a non-resident. In addition, penalty taxes are applied on any contributions made while a non-resident.

Benefits

The Tax-Free Savings Account (TFSA) is a savings plan that allows Canadians to invest and earn tax-free returns. Any income (interest, dividends, and capital gains) earned is tax-free.

- Savings grow faster because earnings are tax-free. This may be especially beneficial if you are in a higher tax bracket.
- Withdrawals can be made whenever you need to without tax consequences and be re-contributed in a later year.
- There are no restrictions on how the money is used.
- Withdrawals don't affect eligibility for income-tested benefits like Old Age Security and GST credit.
- You can keep it for life. There is no requirement to close or convert your TFSA at a set age.

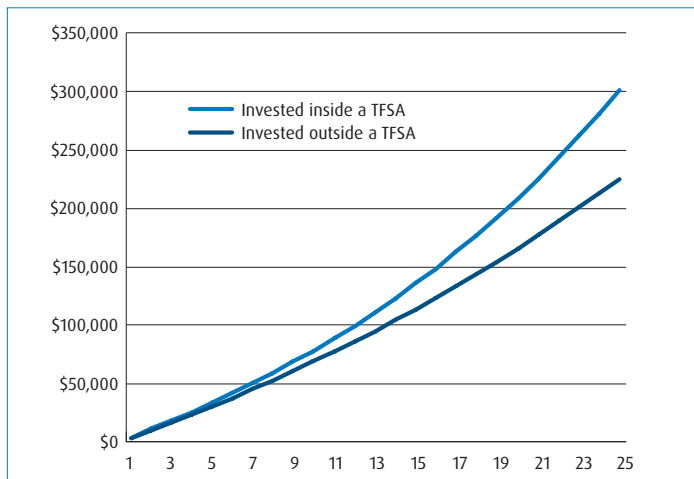
How can I use it?

- You may be able to transfer existing funds from a taxable account into a TFSA for tax-free earnings. (There may be tax implications to consider.)
- If you have already maximized your RRSP contribution, you can contribute your excess cash into a TFSA.
- If a family member has no earned income for the year for an RRSP contribution, you can give them funds to contribute into their own TFSA (subject to their personal TFSA contribution limit).
- If you foresee the potential need for early access to funds, consider opening a TFSA because withdrawals from TFSAs are not taxable.

Why open a TFSA?

Earn income from your investments tax-free. The graph below compares the growth of annual \$6,000 contributions to a TFSA versus saving \$6,000 annually in a non-registered investment account. Assuming a five per cent rate of return, after 25 years the TFSA will grow to \$300,681; while the non-registered account grows to only \$225,318. As a result of the tax-free growth of the TFSA, you'd have over \$75,363 (or 33 per cent) more to fund your financial goals.

Benefits of Tax-Free Growth in a TFSA



Assumptions: \$6,000 annual contributions earning a five per cent annual rate of return. Contributions are made on January 1 of each year for 25 years. Income generated outside the TFSA is taxed at a 40 per cent marginal tax rate.

Note: The Canada Revenue Agency (CRA) will track your contribution room. CRA reports this amount to individuals through the **My Account** function on the CRA web site: www.cra.gc.ca/myaccount

What's the difference between a TFSA and an RRSP?

Feature	Tax-Free Savings Account (TFSA)	Registered Retirement Savings Plan (RRSP)
Contribution Room	You don't need to have any income to accumulate contribution room.	You must have "earned income" in order to accumulate contribution room.
Contributions	Contributions are not tax-deductible on your income tax return.	Contributions are tax-deductible on your income tax return.
Withdrawals	Withdrawals are tax-free. Any amount withdrawn (excluding qualifying transfers) is added to your contribution room in the following year.	Withdrawals are taxable in the year of withdrawal (with some exceptions). Any amount withdrawn cannot be added to your contribution room in the following year.
Account Conversion	There is no requirement to convert the TFSA to an income payment option.	An RRSP must be fully withdrawn or be transferred to a Registered Retirement Income Fund (RRIF) or annuity by the end of the year you turn 71.



For more information, speak with your BMO financial professional.



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¹ TFSA annual contribution limit is indexed to inflation, and rounded to the nearest \$500 based on the consumer price index provided by Statistics Canada.

² If you've never contributed to a TFSA and were at least 18 years of age in 2009 and have been a Canadian resident since then, your 2020 contribution limit will be \$69,500.

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