Manulife Bank

A few facts about tax-free savings accounts

What is a tax-free savings account (TFSA)?

A TFSA is a type of savings account introduced by the Canadian Government on January 1, 2009. It's unique from other savings vehicles in that its growth (that is, the income earned on the savings) is not taxable by the government. TFSAs are available for Canadian residents who are 18 years of age and older, who have a valid Social Insurance Number.

The account holder may use the account to save for any purpose and may make withdrawals at any time.

Why it's called "tax-free"

Most often, the income earned in a savings vehicle is taxed by the government. When you save money in a tax-free savings account, the income earned in the account is not taxed so you do not have to claim it on your income taxes. Also, there are no taxes due when you withdraw money from a tax-free savings account. The withdrawal is not added to your income.

However, the contributions are not tax deductible. That is, they do not reduce your income for tax purposes.

Minimum and maximum deposits

While there is no minimum amount required to open a tax-free savings account, there is a maximum that each individual may contribute to their TFSA each year. In general, the contribution room that has been allotted to each eligible person from 2009 to 2012 is $5,000. For 2013 to 2014, the contribution room is $5,500 and $10,000 for 2015. The contribution room for 2016 is $5,500. The contribution amount is determined by the Canada Revenue Agency.

Each eligible person may have more than one tax-free savings account but the total savings in all your accounts must not exceed your total personal contribution room. You may only deposit up to your maximum contribution room in each given year across all accounts. If you have not contributed your maximum amount into your account in a year, any unused contribution room will carry forward to the following year.

Withdrawal and re-deposit rules

If you have contributed your maximum amount into your account and then withdraw money, you may not deposit that amount back into the account in the same year. You must wait until the following year to contribute that amount of money back into the account.

If you don't wait and you over-contribute, the Canada Revenue Agency will charge a monthly penalty on the excess amount.

Explaining withdrawals and deposits

Example 1

Bob has $5,500 contribution room available in 2016 (currently his balance is $32,292.42 at the end of 2015)

- He contributes $3,000 in January 2016.
- This leaves him with $2,500 available contribution room for 2016 $5,500 - $3,000).
- He then withdraws $6,000 in April 2016 to put towards a new car.
- In 2017, Bob will have the new $5,500 contribution room plus the $2,500 unused room from 2016, plus the $6,000 contribution room from his withdrawal in April 2016, equaling total contribution room of $14,000 for 2017.

Example 2

Joanne has $22,000 contribution room for 2016
$5,500 (contribution room from 2016) + $10,000 (contribution room she didn't use in 2015) + $5,500 (contribution room she didn't use in 2014) + $1,000 (unused contribution room from 2013)

- She contributes $7,000 in February 2016.
- She contributes another $9,000 in July 2016.
- She then contributes another $6,000 in September 2016.
- Joanne has now contributed all $22,000 that she had room for at the beginning of 2016.
- In October 2016, Joanne withdraws $7,000 for home renovations.
- She wants to make a deposit into this account in December, can she?
- The answer is "no." She cannot contribute any more money in 2016 without incurring a penalty because she has already contributed her maximum for 2016.
- In 2017, she will have the new $5,500 contribution room plus the $7,000 room from the withdrawal she took in October 2016, equaling $12,500 contribution room for 2017.

Appointing a successor or beneficiary

For your TFSA, you may name a successor, a beneficiary or both.

Successor – must be a spouse or common-law partner. The successor will be named as the new owner of the TFSA upon your death without any tax implications and it will not affect their own contribution room.[2]

Beneficiary – can be anyone who is considered eligible, based on guidelines set out by the Canada Revenue Agency and there can be more than one. The funds will be paid out to the beneficiary and, if they choose to put it in a TFSA, it will impact their contribution room.[2]

Professional advice can be helpful

Knowing whether to put your savings into a tax-free savings account, an RRSP or some other savings vehicle can require professional expertise. We recommend speaking with your financial advisor for advice or to learn more about this type of account.

TFSA vs RRSP, what's the difference?

TFSAs and RRSPs are both tax-sheltering investment instruments, but what's the difference? As mentioned above, withdrawals from a TFSA are not taxed; however, the contributions to the account are not tax deductible either (which means you do not get a tax refund). Conversely, withdrawals from an RRSP are taxed, but RRSP contributions are tax deductible (you may qualify for a tax refund each year for contributions). RRSPs mature at the end of the year in which the owner turns 71 and must either be converted to one or more maturity options or cashed out. TFSAs do not mature; however, you must be at least 18 years of age to open a TFSA. Another key difference is that the contribution limit for RRSPs is determined by the account holder's yearly income whereas the annual contribution limits for a TFSA are the same for everyone. There are a number of factors to consider when deciding where to direct your tax-sheltered investments, talk to your financial advisor to discuss what works best for you.

If you have any questions about Manulife Bank's tax-free savings accounts, you can speak with a Manulife Bank Service Representative at 1-877-765-2265. The Government of Canada has more information about tax-free savings accounts at their website, www.tfsa.gc.ca.

[1]The amount of $$32,292.42 is based on depositing the annual maximum amount into a Tax-free Advantage Account on January 1 from 2011 to 2015 and taking no withdrawals.
[2]Note that transfers to successors or beneficiaries are subject to provincial regulations.
Tax-Free Savings Accounts (TFSAs) are offered through Manulife Bank of Canada. Each individual's eligibility and contribution limits are determined by Canada Revenue Agency. Only Canadian residents 18 years of age or older are eligible to open a TFSA or contribute to one. The account holder is the only person who can contribute to the TFSA. Contact your financial advisor for more details.

Examples are for illustration purposes only.

For more information,
please visit manulifebank.ca

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