The Tax-Free Savings Account (TFSA) Frequently Asked Questions

The Tax-Free Savings Account (TFSA) is a savings vehicle that started in 2009 and 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 savings tool.

Eligibility

Q. Who is eligible to open a TFSA?

A. A Canadian resident who is 18 years of age or older, and 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. For example, if you are a resident of British Columbia and you turned 18 on April 15th, 2011 then you would have accumulated $5,000 of contribution room for 2011. Once you turn age 19 in 2012, you will have accumulated $10,000 in TFSA contribution room.

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?

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

1. The annual TFSA contribution limit for the year. For each calendar year starting in 2009 to 2012, an individual may contribute up to $5,000 to a TFSA. For 2013, the TFSA contribution limit is $5,500. The contribution limit is indexed to inflation and is subject to change by the federal government;
2. Any withdrawals from the TFSA in the previous year; and
3. Any unused TFSA contribution room since 2009.

Here is an example:

- Joe has maximized his 2009 contribution and therefore has no unused contribution room to carry forward.
In 2010, Joe has contribution room of $5,000, but he only contributes $4,000 to his TFSA. Therefore, he can carry forward $1,000 to 2011.

In 2011, Joe’s contribution room becomes $6,000, which is made up of $5,000 (2011 contribution limit) + $1,000 (2010 unused contribution room). In 2011, Joe does not contribute at all to his TFSA and withdraws $2,000 from it.

In 2012, Joe’s contribution room becomes $13,000, which is made up of $5,000 (2012 contribution limit) + $6,000 (2011 unused contribution room) + $2,000 (amount withdrawn in 2011). Joe makes no contributions to his TFSA in 2012.

In 2013, Joe’s contribution room becomes $18,500, which is made up of $5,500 (2013 contribution limit) + $13,000 (2012 unused contribution room)

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 as well as through the “My Account” function on the CRA web site. You should 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 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.

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, 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, subject to any restrictions in the investments held in your plan. 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 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 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 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 government income-tested benefits if I withdraw funds from my TFSA?

**A.** No. Since neither income earned within a TFSA nor withdrawals are included in income consequently; 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 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 in the following circumstances:

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

Since the qualifying transfer does not affect either individual’s contribution room, the transfer will not eliminate any excess TFSA amount. Similarly, it will not reduce the contribution room of the recipient spouse/partner.

Death

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

A. If the surviving spouse/partner is named as the “successor holder”, he or she may become the new holder of the TFSA immediately upon the plan holder’s death. 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 and limits may apply in this situation. Please consult with your advisor or lawyer for guidance.

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

A. Generally, if anyone other than the surviving spouse/partner is named as the beneficiary, he or she will receive the fair market value of the TFSA at the time of the holder’s death.

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.

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:

1. You can continue to maintain your TFSA and any investment earnings in the account or any 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.
2. You will not be allowed to make additional contributions to your TFSA, and no contribution room will accrue during the period you remain a non-resident. Any contributions made while you are a non-resident will be subject to a penalty tax of 1% per month of the contribution until withdrawn.

3. 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 a TFSA creditor-protected?

A. No. 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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