MEMBER TAX-FREE SAVINGS ACCOUNT

A Fresh Approach To Your Savings

Tax-Free Savings Account: A Fresh Approach to Your Savings

TFSA Dollar Limit (Contribution Limit)

Contributions to your TFSA may only be made by you, the Holder, and the amount is not tied to your income sources or levels.

- $10,000 is the maximum contribution limit for 2015 and subsequent years.
- Contributions are not tax deductible.

Unused TFSA Contribution Room

When you contribute less than the maximum contribution limit, the difference is referred to as 'unused contribution room'.

- Unused contribution room will accumulate each year.
- Unused contribution room is carried forward indefinitely, allowing you to 'catch up' by contributing more than the maximum contribution limit in a future year.
- A TFSA withdrawal will increase your contribution room for any year **after** the year of withdrawal. As a result, when amounts are withdrawn from a TFSA they can be re-contributed in the future when funds become available.

Maximum Contribution Room Calculation

The maximum contribution limit is calculated as follows:

- Unused contribution room from prior year, PLUS Contribution limit for current year, PLUS Withdrawals in previous year

e.g. You contributed $2,700 in 2009, $5,000 in 2010, $5,000 in 2011, $3,000 in 2012, $5,500 in 2013, $5,500 in 2014. In 2014, you make a $7,500 withdrawal. For 2015, you could contribute $21,800.

Note: The limits for 2009-2012 were $5,000; 2013-2014 were $5,500; 2015 and subsequent years $10,000.

$2,300 (2009 unused contribution room)
$2,000 (2012 unused contribution room)
$7,500 (2014 withdrawal)
$10,000 (2015 contribution limit)
$21,800 (2015 contribution room)

You are responsible for monitoring your TFSA contributions and withdrawals. Up-to-date information about your TFSA transactions and your available TFSA Contribution Room is available from the CRA via the internet or phone:

- Access "My Account" via the CRA website
- Call 1-800-267-6999 Tax Information Phone Service (TIPS)

Excess TFSA Amount (excess contributions)

An excess contribution occurs when you contribute more than your unused contribution room. You are responsible for ensuring your maximum contribution limit is not exceeded.

e.g. In the above example, you withdrew $7,500 in May 2014. If you had re-contributed that $7,500 in October 2014, you would have been in an excess contribution situation of $3,200. ($7,500 minus $4,300 [2009 + 2012 unused contribution room]).

An excess contribution will result in a 1% per month penalty tax on the highest excess amount in each month. The tax applies until the entire excess amount is withdrawn or absorbed by new contribution room in subsequent years.

e.g. In the above example, you would have been subject to a penalty tax of $96 ($3,200 x 1% x 3 months [Oct/Nov/Dec]).

The CRA will advise you when an excess contribution occurs. You would then be required to complete CRA form RC243 *Tax-Free Savings Account Return* and RC243-Sch-A *Schedule A – Excess TFSA Amounts* and calculate the penalty taxes owing. The forms and taxes owing must be remitted to the CRA by June 30 following the year the excess contribution occurred.

If you wish to move funds from one TFSA to another, DO NOT make the common mistake of withdrawing from your TFSA and re-contributing to another. This action may result in a penalty tax. Instead, contact your credit union for assistance to properly transfer TFSA funds to your credit union TFSA.

Qualified Investments

The types of eligible investments are restricted under the *Income Tax Act*. Options vary among credit unions and may include:

- Term deposits and GICs
- Variable interest savings accounts
- Credit union shares
- Index-linked term deposits
- Mutual funds
- Publicly traded securities
- Bonds

There are restrictions on holdings in a self-directed TFSA. Check the rules carefully if the investment is in an entity in which you have a significant interest (generally more than 10%) or where there is a non-arm's length relationship.

Borrowing Money to Purchase a TFSA

Interest on money borrowed to purchase a TFSA is not deductible for tax purposes.

Benefits and Advantages

Benefits or advantages based on TFSA holdings, such as merchandise, trips or interest-free loans, are subject to a penalty tax.

There are punitive tax measures that discourage deliberate over-contributions, holding non-qualified/prohibited investments and 'asset transfer transactions (swap transactions)'.

Withdrawals

- You may withdraw funds at any time; withdrawals may be restricted by investment terms.
- Withdrawals are not reported as taxable income and are not subject to income tax.
- TFSA withdrawals of contribution/earnings will increase your contribution room for future years, but not for year of withdrawal.
- Withdrawals will not impact eligibility for federal income tested benefits and credits (e.g. OAS, GIS, Age Credit, GST, EI, child tax benefit, working income tax benefit).

Transfers

TFSA funds are transferable to another TFSA owned by:

- You, under a direct transfer
- Your spouse/common-law partner (CLP), on your death
- A former spouse/CLP, on relationship breakdown

Note: Where a transfer from one TFSA to another TFSA for the same Holder is not direct, the transactions may result in an excess contribution situation. A transfer due to death will not affect the TFSA contribution room of the surviving spouse/CLP (see Death of a TFSA Holder for restrictions). A transfer due to relationship breakdown will not affect the TFSA contribution room of the Holder or former spouse/CLP.

Death of a TFSA Holder

You may appoint your spouse/CLP as successor holder and beneficiary of your TFSA. Upon your death, your spouse/CLP will become the Holder of the TFSA.

Note: Where, at the time of your death, you reside in Quebec, your spouse/CLP cannot become the successor holder of your TFSA.

Where your spouse/CLP is the designated beneficiary only, and is not appointed successor holder, any income/gains earned after your death is not tax sheltered. Your spouse/CLP may contribute an amount, not exceeding the fair market value (FMV) at date of death, without impacting his/her unused TFSA contribution room. That contribution must be made before December 31 of the year following year of death. In addition, within 30 days of making that contribution or at a later time as permitted by the CRA, your spouse/CLP must provide the CRA with a completed RC240 *Designation of an Exempt Contribution Tax-Free Savings Account (TFSA)*.

You may designate someone other than your spouse/CLP as beneficiary of the TFSA, or may choose not to name any beneficiary at all. In either circumstance, the FMV of the TFSA at date of death is tax-free. Any increase in value of the TFSA after date of death becomes taxable income either of the beneficiary or of your estate, depending on the circumstances and the date of payments.

Tax-Free Savings Account (TFSA)

Do you know there is a way to earn investment income tax-free?

The Tax-Free Savings Account (TFSA) allows taxpayers to set money aside in eligible investment vehicles and watch those savings grow tax-free throughout their lifetime.

There are no restrictions on the way TFSA funds (contributions and earnings) may be used (i.e. purchase a car, renovate a home, start a small business, take a family vacation, medical or long term care expenses or just save for 'a rainy day'). All income levels and all walks of life can benefit from a TFSA. But only a careful review of each person's financial situation will determine how to optimize use of RRSPs, RESPs, RRIFs and TFSAs.

Types of TFSAs

There are three basic types of TFSAs: deposit-type plans, mutual funds, and self-directed plans.

Credit unions, trust companies, mutual fund companies, life insurance companies, banks and investment dealers are authorized by the Canada Revenue Agency (CRA) to offer TFSAs. While all TFSAs provide the same benefits, not all plans are the same. Each financial institution may offer one or more ways to invest your money, and the growth rates, terms, conditions, availability of deposit insurance, and fees may vary.

TFSA Eligibility

The individual owning the TFSA is the 'Holder'. Any individual person (not trusts or corporations) who meets all of the following three requirements is eligible to open a TFSA:

- Resident in Canada, and
- 18 years of age or older, and
- Holds a valid Social Insurance Number (SIN).

There is no maximum age limit to open or hold a TFSA and a person may hold more than one TFSA.

Non-resident Holder

In the event you are no longer a resident of Canada, the following rules apply:

- The TFSA may remain open.
- No contributions may be made.
- Contribution room will not accumulate.
- Withdrawals will increase contribution room; however, you cannot take advantage of the increased contribution room until you become a resident of Canada.
- If you make a contribution while you are a non-resident, you will be subject to a 1% per month penalty tax for each month until the contribution is withdrawn or you become a resident of Canada.

If you subsequently become a resident of Canada, contribution room will commence accruing and you may make future contributions.

Surname, SIN, Birthdate Must Match CRA Records

The CRA will register your TFSA when your surname, SIN and birthdate match the CRA records. If one of these items does not match the CRA records, your TFSA cannot be registered.

eg: Your date of birth is July 29, 1987; however, when your Tax Return was submitted, your birth year was recorded as 1978. Although your birthdate is correct on your credit union account and your TFSA application, it does not match the CRA records. To correct the error, you would need to provide the CRA with proof of your correct birthdate.

If the error is not corrected, your TFSA would remain unregistered; the interest earned on your contributions would not be tax sheltered.

Prepared with assistance by Central 1 and Concentra.

TFSLEAZZZA