PRIVATE WEALTH
MANAGEMENT

WOOD GUNDY

TAX-FREE SAVINGS ACCOUNT (TFSA)

Benefits of a TFSA

- Beneficial for those wanting short-term savings for such things as a car or vacation or long-term such as retirement or education savings
- Never pay tax on interest, dividends or realized capital gains earned within the account, even when withdrawn, providing you adhere to contribution limits and eligible investment rules

Qualifying for a TFSA

- Must be a Canadian resident
- Must have a valid SIN
- Must be 18 years of age[1]

TFSA contributions

- Annual TFSA dollar limit is $6,000[2]
- Contributions are based on the calendar year and are not tax deductible
- Contribution room accumulates starting at the age of 18, beginning from 2009, and is not based on earned income
- Unused contribution room can be carried forward indefinitely
- TFSAs can only be held by an individual. Corporate, trust, spousal or joint TFSAs are not permitted
- Contributions must come directly from the TFSA holder
- Transfers from a Registered Retirement Savings Plan (RRSP) to a TFSA as a contribution are considered a withdrawal from the RRSP (fully taxable) and then a contribution to the TFSA using the Fair Market Value at the time of the contribution
- Eligible investments are identical to RRSPs and RRIFs
- Examples of eligible investments include Government of Canada T-Bills, Canada and provincial Savings Bonds, transferable GICs, segregated funds, eligible foreign investments and equities
- TFSAs are not creditor protected

TFSA over contributions

- There are no excess contributions permitted in a TFSA
- Over contributions will be subject to a 1 percent monthly penalty tax on the highest amount of over contribution for the month; the penalty tax will continue to be charged until the excess amount is withdrawn or absorbed by new TFSA contribution room
- Deliberate over-contributions will result in an advantage tax of 100 percent, applied to any income earned on these overcontributions

Contributing securities you already own (making “in-kind” contributions)

- Contribution equal to fair market value at time of contribution
- Deemed disposition of securities when contribution is made
- Capital gains taxable and capital losses denied
- The total in-kind contribution amount will include any accrued interest
- In-kind contributions cannot be made from a Registered Account such as a RRSP or a Registered Retirement Income Fund (RRIF); it would be considered a withdrawal from the RRSP/RRIF and subsequent contribution to the TFSA at Fair Market Value (FMV)

TFSA withdrawals

- Funds can be withdrawn at any time for any reason
- Withdrawals are not a taxable event
- Withdrawals are not treated as income and do not affect eligibility for federal income-tested benefits
- Any amounts withdrawn from your TFSA are added back to your TFSA contribution room in the following year
- Any amounts withdrawn as a result of an advantage, nonqualified or non-resident investment income, including

income earned on excess contributions, are not added back to your TFSA contribution room

TFSA for non-residence

- Non-Residents can continue to hold a TFSA
- Savings will continue to grow tax-free from a Canadian tax perspective
- TFSA contribution room will not accumulate while a non-resident
- Any contributions made while a non-resident will be subject to a 1 percent monthly penalty tax on the highest amount of non-resident contributions for the month; the penalty tax will continue to apply until the contribution is withdrawn in full and a prescribed form filed with the Canada Revenue Agency (CRA) or resuming Canadian residency
- Securities rules for non-residents may restrict the operation of a TFSA as a result of foreign law

TFSA swaps

- A swap is defined as an exchange of securities for cash between accounts in which you are the holder
- A swap transaction will be treated as an "advantage" and any income earned on the property swapped into the TFSA will be subject to a 100 percent penalty tax
- Exceptions may be made if transferring assets between TFSAs of the same holder or swapping out non-qualified investments or prohibited investments

Non-qualified investments

A non-qualified investment is defined as property that is not a qualified investment when held in a TFSA as described in the *Income Tax Act* (Canada) and the Income Tax Regulations.

Penalties for holding a non-qualified investment in your TFSA:

- 50% of the fair market value at the time of acquisition or when the investment becomes non-qualified will be added to your income
- The tax may be refundable under certain circumstances
- Investment income earned on the non-qualified investment while held in the TFSA will be taxable to the TFSA
- Any investment considered both non-qualified and prohibited will be deemed to be a prohibited investment for tax purposes

Prohibited investments

A prohibited investment is defined as an investment to which the TFSA holder is closely connected and generally includes:

- Debt of the TFSA holder
- Investments in which you have a significant interest (you own ten percent or more of the issuing company, either individually or as a member of a related group), or where you do not deal at arm's length[3]

Penalties for holding prohibited investments in your TFSA include:

- A tax equal to 50 percent of the fair market value at the time of acquisition or when the investment became prohibited
- Any income derived from a prohibited investment will be treated as an "advantage" and a 100 percent tax will be applied[4]
- The tax may be refundable under certain circumstances

Death of plan holder

- Holders of TFSAs can designate a successor holder or beneficiary for their TFSA.[5] Appointing a beneficiary or successor holder allows TFSA assets to pass outside the estate
- A TFSA holder may designate a spouse or common-law partner as a successor holder and upon death the successor holder essentially takes over the TFSA account tax-free
- If a spouse or common-law partner is entitled to the TFSA as a beneficiary of the plan (but not a successor holder), or under the estate, they can generally contribute up to the date of death value to their own TFSA as an exempt contribution. CRA form RC240 must be filed within 30 days of the exempt contribution being made
- Beneficiaries other than spouse or common-law partner can also be appointed as beneficiary, or the TFSA can be left to the estate
- Under a beneficiary designation or when left to the estate, any income earned on assets held in the TFSA after death are generally taxed to the person entitled to the TFSA proceeds
- Québec legislation does not allow beneficiaries to be designated on many TFSA accounts and should be dealt with in the TFSA holder's Will

[1] Individual must be age of majority in order to open a CIBC Wood Gundy brokerage account.

[2] The annual dollar limit between 2009 and 2012 was $5,000. In 2013 and 2014 the annual dollar limit was $5,500. In 2015 it increased to $10,000, and reduced back to $5,500 for 2016 - 2018, $6,000 for 2019 - 2021.

[3] A non-arm's length transaction is one where parties are related in some capacity, or the parties do not deal at arm's length for another reason such as they acted in concert without separate interests.

[4] Certain transitional rules apply.

[5] Quebec does not allow beneficiary designation on certain types of TFSAs.

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