4.5. Savings & Investments - TFSAs

Slide #1:

TFSAs

Another type of investment is a Tax-Free Savings Account (TFSA).

Slide #2

This program was introduced by the Canadian government in 2009. It allows people who are 18 years old or older and who meet the eligibility requirements to save money in a registered plan without having to pay taxes on the growth earned by their investment. There is a set limit to the amount of money you can contribute to a TFSA each year and it is the same for everyone who qualifies regardless of income.

Slide #3:

The cool thing about the limit is that, whether you open a TFSA right away or not, your contribution room begins in 2009 or the year you turn 18 years old and will continue to grow each year. Any unused contribution room is carried forward.

Slide #4:

So, for example, if you turned 18 in 2020 the contribution limit for that year was $6,000. It was also $6,000 in 2021 and 2022. So, if you opened a TFSA in 2022, your contribution room would retroactively include all the years since you turned 18 and you would be able to contribute up to $18,000. And, as with an RRSP, you will need to be careful not to over-contribute because if you exceed the contribution limit, you will have to pay a tax on the highest excess TFSA amount during the month for each month until you withdraw the excess amount.

Slide #5:

TFSAs are a great way to save money, even for retirement. Unlike an RRSP, you do have to pay taxes on the money you invest in your TFSA but you do not ever have to pay taxes on the growth your money earns in your TFSA. So, when you withdraw money from your TFSA, you do not have to pay taxes on your withdrawal. Many people find it helpful to save for retirement using both a TFSA and an RRSP as they both provide different benefits.

Slide #6:

TFSAs are convenient and useful for a wide variety of savings goals. They are not limited to saving for retirement and can be used to save for any short or long term goal. Depending on the terms and conditions of the investment vehicle you choose for your TFSA, you can withdraw the money at any time and for any reason. When you withdraw the money, the following year the amount you withdrew is added back to your contribution limit and any unused contribution room will carry forward to use in future years.

Slide #7:

TFSAs also provide a great tax benefit. You can choose all sorts of vehicles to invest in a TFSA, from basic savings accounts, to term deposits and even mutual funds and stocks and bonds.

Slide #8:

While you do have to pay taxes on the money you invest in your TFSA, you don't ever have to pay taxes on any growth your investment earns. So, the higher the rate of return on your investment, the greater the tax benefit from your TFSA.

Slide #9:

While some investments may interfere with your ability to receive income-based benefits from the Government (such as Guaranteed Income Supplement, Old Age Security, Employment Insurance, Child Tax Benefits, etc) a TFSA does not interfere with these benefits.

Slide #10:

TFSAs and RRSPs have some different but complimentary features. While an RRSP is intended for retirement savings, a TFSA can be used to save for any purpose. RRSPs are tax-deductible when you invest but you must pay the taxes when you withdraw the money. TFSAs are not tax deductible when you invest but you do not have to pay any taxes when you withdraw the money which makes any growth your investment earned tax free. RRSPs only allow you to contribute until you are 71 (or your spouse is 71 in the case of a Spousal RRSP) whereas there is no age cap for contributions to a TFSA.

Slide #11:

If you would like help deciding whether a TFSA or RRSP or both will best suit your personal situation, contact your financial institution or a qualified financial planner and they will be happy to help.