TAX CORNER

Serve yourself a bigger slice of the pie

REDUCE TAXES AND MAXIMIZE SAVINGS FLEXIBILITY WITH A TAX-FREE SAVINGS ACCOUNT (TFSA)

Like everyone who works hard for a living, you want to keep more of what you earn. But saving more sometimes means paying more income tax. Thanks to the TFSA, there is a better way to save – tax-free.

- Tax-free growth – all the income you earn from your investments in a TFSA is exempt from tax
- No tax on withdrawals – withdrawals are not considered income, so there is no tax to pay
- Choose your savings goal – whether for short-term needs such as home renovations and unexpected repairs or long-term needs such as a home down payment and retirement assets, a TFSA is a flexible savings tool that can help get you to your goal faster
- Easy access to your cash – withdraw funds for any reason without affecting your eligibility for federal income-tested benefits and credits such as the Canada Child Tax Benefit and Employment Insurance benefits
- Recover your contribution room – whenever you withdraw funds, you can re-contribute the same amount at a later date; you don't lose your contribution room[1]
- Pick from a wide range of investments – a TFSA may hold a wide variety of investments such as stocks, bonds, mutual funds, segregated fund contracts and GICs[2]
- Tax-free transfer at death – generally, the value of the TFSA at the date of death can be paid out tax-free
- Spousal rollover at death – a TFSA can continue on a tax-free basis if your spouse[3] becomes the successor holder or the value of the assets at the time of death is transferred to your spouse's TFSA[4]

ELIGIBLE INVESTMENTS

- Mutual funds
- Segregated fund contracts
- Stocks in publicly traded companies
- Government and corporate bonds
- GICs[2]
- Cash

[1] Amounts withdrawn in a taxation year will be reflected in contribution room in the following year. Over contributions in a year will be subject to tax consequences assessed by the Canada Revenue Agency.

[2] GIC refers to Guaranteed Interest Contracts issued by insurance companies, as well as bank-issued Guaranteed Investment Certificates.

[3] Includes a spouse or common-law partner as defined by the *Income Tax Act* (Canada)

[4] The transfer must occur prior to the end of the year following the year of death, and the surviving spouse can designate the transferred amount as an exempt contribution so it does not impact his or her TFSA contribution room.

HOW CAN A TFSA WORK FOR YOU?

FOR YOUNG SINGLES AND COUPLES:

- Save for property down payments, a vehicle, etc.
- Grow your retirement assets
- Supplement your income during periods of parental leave
- Generate wealth more quickly through tax-free compounding
- Reduce your taxes – if you are in a lower tax bracket, put your savings in a TFSA and let your Registered Retirement Savings Plan (RRSP) contribution room grow. When you're older and in a higher tax bracket, you can direct your savings to your RRSP and take advantage of the bigger tax deduction on your contributions. This way, you don't have to miss out on tax-deferred growth in your early years by not putting money in the RRSP, nor be restricted later in life by RRSP contribution limits

FOR YOUNG FAMILIES:

- Save for major purchases (e.g., a second car) and home repairs/renovations
- Begin planning for your children's education
- Create an emergency fund in case of job loss or disability
- Grow your retirement assets

FOR SINGLE-INCOME FAMILIES:

- Split your income and reduce your taxes

If you are interested in learning more about TFSAs and how they can benefit you, contact your advisor. •

Solutions

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