

Tax Free Savings Accounts (i.e. TFSA)

Tax-free savings accounts are available for Canadian residents who are 18 years of age or older. The first tax year that they were available was 2009.

There is no deadline for contributions to a TFSA, as the unused contribution room is carried forward into the next year. However, a withdrawal in any year increases the TFSA room in the following calendar year. Thus, if you are thinking of making a withdrawal close to year end, make sure it is done by December 31st, in order to have the withdrawal amount added back to the TFSA room sooner.

In a tax-free savings account:

1. All investment income (interest, dividends, trust distributions and capital gains) will accumulate tax free
 - a. Considering this all capital losses are not tax deductible, and
 - b. not eligible for Canadian dividend tax credits
 - c. Interest on money borrowed to invest in TFSA is not tax deductible
2. Contributions are not tax deductible
 - a. **Excess contribution are subject to 1% monthly tax**
 - b. Contributions are reported directly to CRA by your financial institution (ask your tax professional for your details)
 - c. 2016 contribution annual limit is \$5,500, for total of \$46,500 contribution room
 - d. 2015 limit \$10,000
 - e. 2013-2014 limit \$5,500 annually
 - f. 2009-2012 limit \$5,000 annually
3. Withdrawals are not taxable
4. Death of the TFSA Holder
 - a. Can name a spouse or common-law partner as “successor holder” and on death the spouse keeps tax exempt status without affecting the spouse’s contribution room
5. Marital Breakdown or divorce
 - a. Can transfer directly to former spouse without affecting their contribution room.