

# Tax-Free Savings Account

January 2023

The Tax-Free Savings Account (“TFSA”) is a savings plan that allows Canadians to invest and earn tax-free returns. Any income that is interest, dividends, and capital gains, are earned tax-free.

## Features

- A variety of investments can be held in a TFSA (e.g., cash, GICs, mutual funds, bonds, and stocks).
- You can contribute up to \$6,500<sup>1</sup> for 2023.
- There is no tax on interest, other investment earnings or capital gains.
- Withdrawals are tax-free.
- Withdrawn amounts can be re-contributed in later years.
- Unused contribution room is carried forward indefinitely.<sup>2</sup>

## Who’s eligible?

The TFSA can be opened by a resident of Canada who has reached the age of majority. Although for some provinces the age of majority is 19, a Canadian resident that is 18 years old would still accumulate contribution room this year for the following year even if they are not eligible to open the account yet.

Although a TFSA can be maintained when the account holder becomes a non-resident of Canada, no contribution room accrues for any year throughout which the individual is a non-resident. In addition, penalty taxes are applied on any contributions made while the account holder is a non-resident.

## Benefits

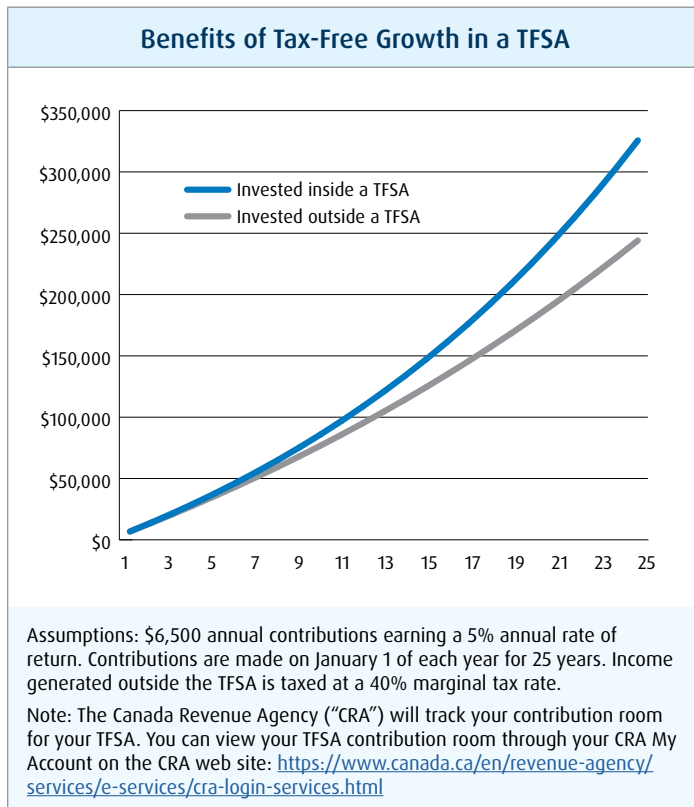
- Savings grow faster because earnings are tax-free. This may be especially beneficial if you are in a higher income tax bracket.
- There are no restrictions on how the money is used.
- Withdrawals don’t affect eligibility for income-tested benefits like Old Age Security and the GST credit.
- You can keep it open for life. There is no requirement to close or convert your TFSA at a set age.

## How can I use it?

- You may be able to transfer existing funds from a taxable account into a TFSA for tax-free earnings (there may be tax implications to consider).
- If you have already maximized your RRSP contribution, you may contribute your excess cash (or tax refund) into a TFSA.
- If a family member has no earned income for the year for an RRSP contribution, you can give them funds to contribute into their own TFSA (subject to their personal TFSA contribution limit).<sup>3</sup>
- If you foresee the potential need for early access to funds, it may still be worthwhile to open a TFSA because withdrawals from TFSAs are not taxable.

## Why open a TFSA?

With a TFSA, you can earn income from your investments tax-free. The chart below compares the growth of annual \$6,500 contributions to a TFSA versus saving \$6,500 annually in a non-registered investment account. Assuming a 5% rate of return, after 25 years the TFSA will grow to \$325,737; while the non-registered account grows to only \$244,095. As a result of the tax-free growth of the TFSA, you'd have over \$81,642 (or 33%) more to fund your financial goals.



What's the difference between a TFSA and an RRSP?		
Feature	Tax-Free Savings Account ("TFSA")	Registered Retirement Savings Plan ("RRSP")
Contribution Room	You don't need to have any income to accumulate contribution room.	You must have prior year "earned income" in order to accumulate contribution room.
Contributions	Contributions are not tax-deductible on your income tax return.	Contributions are tax deductible on your income tax return.
Withdrawals	Withdrawals are tax-free. Any amount withdrawn (excluding qualifying transfers) is added to your contribution room in the following year.	Withdrawals are taxable in the year of withdrawal (with some exceptions). Any amount withdrawn cannot be added to your contribution room in the following year.
Account Conversion	There is no requirement to convert the TFSA to an income payment option.	An RRSP must be collapsed or be transferred to a Registered Retirement Income Fund ("RRIF") or annuity by the end of the year you turn 71.

For more information, please speak with your BMO financial professional.



<sup>1</sup> The TFSA annual contribution limit is indexed to inflation, and rounded to the nearest \$500 based on the consumer price index provided by Statistics Canada.  
<sup>2</sup> If you've never contributed to a TFSA and were at least 18 years of age in 2009 and have been a Canadian resident since then, your 2023 contribution limit will be \$88,000.  
<sup>3</sup> However, the Canada Revenue Agency takes the position that the attribution rules could apply when the funds gifted to contribute to a TFSA are subsequently withdrawn, i.e., where future income and/or capital gains are realized on funds withdrawn that are subsequently re-invested (outside of the TFSA).

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