

Tax-Free Savings Account

January 2022

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 \$6,000¹ a year.
- There is no tax on interest, other investment earnings or capital gains.
- Withdrawals are tax-free and can be made.
- Withdrawn amounts can be re-contributed in later years.
- Unused contribution room is carried forward indefinitely.²

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

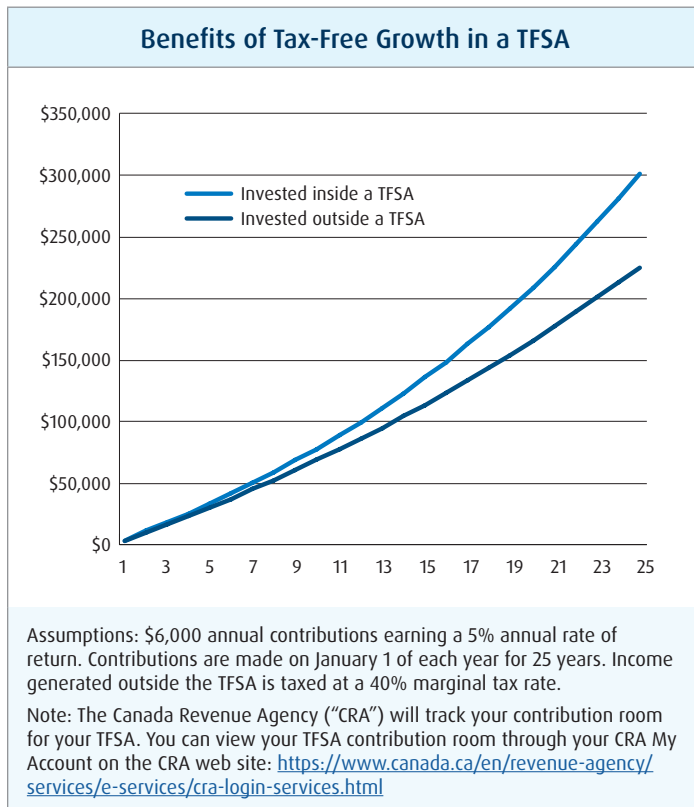
- Savings grow faster because earnings are tax-free. This may be especially beneficial if you are in a higher income tax bracket.
- There are no restrictions on how the money is used.
- Withdrawals don’t affect eligibility for income-tested benefits like Old Age Security and the GST credit.
- You can 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 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).
- If you foresee the potential need for early access to funds, consider opening 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 \$6,000 contributions to a TFSA versus saving \$6,000 annually in a non-registered investment account. Assuming a 5% rate of return, after 25 years the TFSA will grow to \$300,681; while the non-registered account grows to only \$225,318. As a result of the tax-free growth of the TFSA, you'd have over \$75,363 (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 "earned income" in order to accumulate contribution room.
Contributions	Contributions are not tax-deductible on your income tax return.	Contributions are taxdeductible 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 fully withdrawn 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.



¹ 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.

² 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 2022 contribution limit will be \$81,500.

The information BMO Private Wealth provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. Estate, trust, and custodial services are offered through BMO Trust Company. BMO Private Wealth legal entities do not offer tax advice. BMO Trust Company and BMO Bank of Montreal are Members of CDIC.

© Registered trademark of Bank of Montreal, used under license.

All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth.