Tax-Free Savings Account

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

Features

- A variety of investments can be held in a TFSA (e.g. cash, GICs, mutual funds, bonds, stocks, and more).
- You can contribute up to $5,500 a year.
- There is no tax on interest, other investment earnings or capital gains.
- Withdrawals are tax-free and you can make withdrawals at any time.
- Withdrawn amounts can be re-contributed in later years.
- Unused contribution room is carried forward indefinitely.
- There are no restrictions on how the funds are used once withdrawn.
- Withdrawals do not affect eligibility for federal government benefits.

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 the $5,500 contribution room this year for the following year even if they are not eligible to open the account yet.

Although contributions can be made when the account holder becomes a non-resident of Canada, there would be a penalty tax applied on those contributions.

Benefits

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

- Savings grow faster because earnings are tax-free. This may be especially beneficial if you are in a higher tax bracket.
- Withdrawals can be made whenever you need to without tax consequences and be re-contributed in a later year.
- There are no restrictions on how the money is used.
- Withdrawals don't affect eligibility for income-tested benefits like Old Age Security and GST credit.
- You can keep it for life. There is no requirement to close/convert your TFSA at a set age.

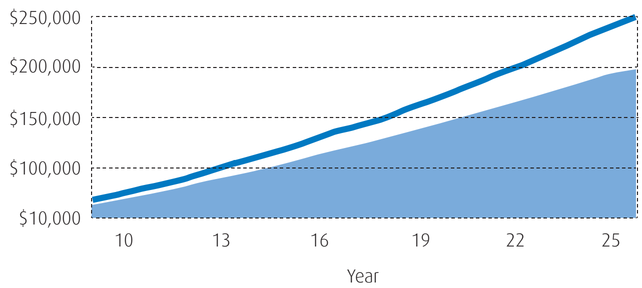
How can I use it?

- 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 can contribute your excess cash into a TFSA.
- If a family member has no earned income for the year for an RSP contribution, you can give them funds to contribute into their own TFSA.
- If you foresee the potential need for early access to funds, consider opening a TFSA because withdrawals from TFSAs are not taxed.

Why open a TFSA?

Earn income from your investments tax-free. The graph below demonstrates the potential difference between investing in a TFSA vs investing in a taxable account.

Projection based on investments of $5,000 per year[1] at 5%[2]



$250,567.27 Invested inside a TFSA

$201,565,51 Invested outside a TFSA[3]

[1] Applies to investments made at the beginning of the calendar year.
[2] 5% rate of return for illustrative purposes only. As with any investment product, returns are not guaranteed. Maximum contribution limit for TFSA in this example is not indexed to inflation rate.
[3] Earning taxed annually at 30%.

To calculate your potential savings based on your personal information, visit the TFSA calculator provided by the Government of Canada: www.budget.gc.ca/2008/mm/calc_e.html

The Canada Revenue Agency (CRA) will track your contribution room. CRA reports this amount to individuals through the **My Account** function on the CRA web site: www.cra.gc.ca/myaccount

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 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 RSP must be fully withdrawn or be transferred to a Retirement Income Fund (RIF) or annuity by the end of the year you turn 71.

For more information, speak with your BMO financial professional.

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