

# The Tax-Free Savings Account

A tax-free way to save for your dreams

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## What is a Tax-Free Savings Account?

In 2009, the government introduced the Tax-Free Savings Account (TFSA) program, which is designed to help you save throughout your lifetime. Flexible features and reduced taxes make this registered account one of the best ways to save for your dreams.

## Why use a TFSA to save?

- > You pay no tax on interest income or capital gains earned within your TFSA.
- > Withdrawals from your TFSA are completely tax free.
- > Your contribution room is restored the year after you make a withdrawal.
- > Income-tested credits and benefits such as the GST credit, Employment Insurance and Old Age Security are not affected by withdrawals from your TFSA.

## How much can you contribute to a TFSA?

Beginning in 2009, Canadian residents aged 18 or older were eligible to contribute up to \$5,000 to a TFSA. From 2013 to 2014, the amount increased to \$5,500 for each year. In 2015, the amount increased again to \$10,000. From 2016 to 2018, the amount decreased back to \$5,500 for each year. From 2019 to 2020, the amount increased to \$6,000 for each year. These figures are reflected in your accumulated contribution room going forward. Any unused contribution room can be carried forward, which means anyone who was 18 or older in 2009, and has not yet contributed, will have \$69,500 of contribution room available in 2020.

The Canada Revenue Agency (CRA) no longer adds TFSA contribution room to the Notice of Assessment. However, you can obtain this information by:

- > Calling the Tax Information Phone Service (TIPS) Automated Tax Information line at 1-800-267-6999
- > Registering for "My Account" on the CRA website at [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca)

Please note: When you make a withdrawal, your contribution room is restored the next calendar year.

## How does a TFSA compare to an RRSP?

Both plans have important tax advantages and understanding the differences will help you maximize your overall savings. In general, an RRSP offers a tax deduction at the beginning when you make a contribution, but you will have to pay tax when you withdraw the money. A TFSA offers no up-front tax break when you make contributions, but you don't pay tax on any withdrawals.

Earnings within both TFSAs and RRSPs are tax sheltered, which means you'll reach your savings goals faster. As well, both plans allow carry-forward of unused contribution room and both have penalties for over-contributing.

## Is a TFSA better than a non-registered savings account?

Due to reduced taxes, the same investment would grow more quickly within a TFSA than in a non-registered account. However, there are contribution limits within TFSAs and RRSPs, so a non-registered account is still useful for topping up your savings. If you borrow to save, the interest on your loan is tax deductible for a non-registered account, but not with a TFSA or RRSP.

**Who will benefit from a TFSA?**

The TFSA is a powerful savings tool that will benefit most Canadians.

- > **Young adults:** If you're just starting out, a TFSA is an excellent way to save for furniture, a car, a wedding or your first house.
- > **Middle-aged adults:** You can take advantage of tax-free savings to establish an emergency fund or save for a family vacation, home renovation, or supplement a child's education savings.
- > **Seniors:** You can use a TFSA to fund additional income during retirement or as a savings vehicle to replace RRSP contributions, which are not allowed past age 71.
- > **Low income earners:** If you withdraw from a TFSA, your eligibility for income-tested benefits will be unaffected. Also, all eligible TFSA individuals receive the standard indexed increase to contribution room, regardless of income level.
- > **High income earners:** The TFSA is an excellent savings vehicle for those who have maximized their RRSP contributions but still want to save more for retirement.

Call your Co-operators Financial Advisor today to see how a TFSA fits into your overall financial plan.

**Notes:**

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The Tax-Free Savings Account is offered by Co-operators Life Insurance Company.

Co-operators Life Insurance Company is committed to protecting the privacy, confidentiality, accuracy and security of the personal information it collects, uses, retains, and discloses in the course of conducting business.