



# Thinking of Opening a Tax-Free Savings Account (TFSA)?



## What is a Tax-Free Savings Account (TFSA)?

A Tax-Free Savings Account (TFSA) is a new kind of savings account registered with the federal government. It allows you to earn investment income without paying taxes.

Starting in 2009, Canadian residents aged 18 or older who have a valid Social Insurance Number (SIN) can contribute up to a set limit each year to a TFSA. **The key benefit is that you do not have to pay taxes on earnings within the account (including interest, dividends or capital gains) or on money you withdraw from the TFSA.** However, contributions to the account are not tax-deductible.

## What are the annual contribution limits?

In 2009, you can contribute up to \$5,000 to a TFSA. In later years, the annual contribution limit will be indexed to inflation and rounded to the nearest \$500. If you do not contribute in a given year or contribute less than the maximum, you can carry forward the unused amount to future years.

If you go over your annual contribution limit, **you will be taxed 1 percent a month on the highest excess amount** for that month until you remove it from the TFSA.

## Where can I open a TFSA?

You can open a TFSA at most financial institutions, such as banks, credit unions, *caisses populaires*, trust and loan companies, and life insurance companies.

## What investments can I hold in a TFSA?

Your TFSA can contain the following types of investments:

- cash
- guaranteed investment certificates (GICs)
- government and corporate bonds
- mutual funds
- publicly traded securities/stocks.

## What happens when I withdraw from a TFSA?

If you withdraw money from your TFSA, your annual contribution limit increases by the amount withdrawn – **but only in the following calendar year.** For example, suppose you withdraw \$500 from your TFSA in 2009. In 2010, \$500 will be added to your contribution room.

## Key features of a TFSA

A TFSA has the following key features:

- Earnings in the account grow tax-free.
- You can take money out without being taxed on it. The money you withdraw can be used any way you like.
- You can carry forward the unused contribution room, increasing the allowable limit in future years.
- Contributions to the account will not reduce your income taxes.
- There is a maximum contribution limit set for each calendar year, starting with \$5,000 in 2009. You can only contribute up to that limit, plus any unused contribution room from previous years.
- If you go over your annual contribution limit, you will be taxed 1 percent a month on the highest excess amount for that month until you remove it from the TFSA.

## Other things to keep in mind

- Different financial institutions charge different fees so shop around before opening a TFSA. Possible fees include account opening fees, transaction fees and monthly maintenance fees. There may also be fees associated with certain types of investment products you can hold within the TFSA.
- Make sure you read the entire contract before signing. If you don't understand something, ask for an explanation. For more information on contracts, see FCAC's publication: ***Before You Sign Any Contract: 10 Things You Need to Know***.

## Questions to ask before opening a TFSA

Here are some questions you should ask before opening an account:

- What are the fees for opening and maintaining the account?
- Are there any other fees?
- Who do I contact if I have a problem or question?

## For more information

For more information on the Tax-Free Savings Account, contact a financial institution that offers the account. You can also visit the TFSA Web site at [www.tfsa.gc.ca](http://www.tfsa.gc.ca) or call the Canada Revenue Agency (CRA) at 1-800-959-8281.

## About FCAC

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the best banking products and services for their needs. FCAC also informs Canadians of their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

FCAC's Web site also provides many comparison charts and calculators to help you determine the best financial products and services for your needs.

You can call our toll-free Consumer Contact Centre at 1-866-461-3222, or visit our Web site at [www.fcac.gc.ca](http://www.fcac.gc.ca). (Consumers with hearing problems can call our TTY number at 613-947-7771 or toll-free at 1-866-914-6097.)

This tip sheet is part of a series. To view FCAC's other tip sheets, please visit our Web site.