Cambrian CREDIT UNION

Understanding
Tax Free Savings Accounts

A Versatile Investment Option

Did you know there is a way to earn investment income tax-free? A TFSA allows taxpayers to set money aside in eligible investment vehicles and watch those savings grow tax-free throughout their lifetime.

There are no restrictions on the way TFSA funds (contributions and earnings) can be used, making them good savings options for retirement, as well as other reasons (i.e. purchase a car, renovate a home, start a small business, take a family vacation, medical or long term care expenses or just save for 'a rainy day'). Individuals at all income levels and all walks of life can benefit from a TFSA.

TFSA Eligibility

Any individual (not trusts or corporations) who meets all of the following criteria is eligible to open a TFSA:

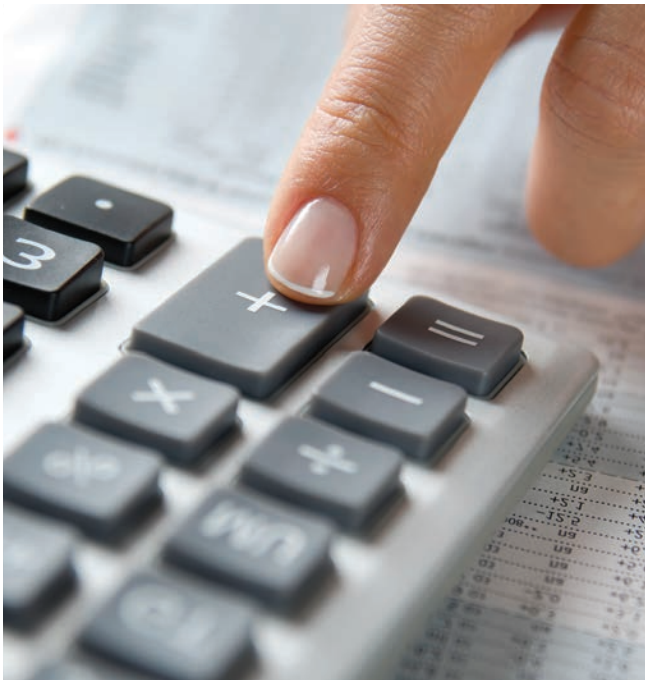
- Resident of Canada, and
- 18 years of age* or older, and
- Holds a valid social insurance number (SIN).

There is no maximum age limit to open or hold a TFSA and a person may hold more than one TFSA.

** In British Columbia, New Brunswick, Nova Scotia, Newfoundland & Labrador, the Northwest Territories, Yukon and Nunavut, the holder must be 19 years of age or older.*

TFSA Contribution Limit

Contributions to your TFSA are not tax deductible, and may only be made by you, the holder. The amount you may contribute each year is set by the government. In 2021, the maximum contribution limit is $6,000. The total TFSA contribution room as of 2021 is $75,500.



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MAXIMUM CONTRIBUTION ROOM CALCULATION

The maximum contribution limit is calculated as follows:

Unused contribution room at the end of the previous year	**+**	**Contribution limit for current year**	**+**	**Withdrawals made in the previous year**	**=**	**Maximum contribution limit**

You are responsible for knowing your TFSA contribution limit. You can contact the CRA for up to date information on your TFSA transactions, your contribution limit, as well as your contribution history:

- Access "My Account" on the CRA website: www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html
- Call 1-800-267-6999 to reach the Tax Information Phone Service (TIPS)

Unused TFSA Contribution Room

When you contribute less than the maximum contribution limit, the difference is referred to as 'unused contribution room'. Unused contribution room accumulates each year and is carried forward indefinitely, allowing you to 'catch up' in future years.

Excess TFSA Contributions

It is important to keep track of your contribution room. If you contribute more than allowed to your TFSA, you will be penalized by the Canada Revenue Agency (CRA). An excess contribution will result in a 1% per month penalty tax on the highest excess amount in each month. The tax applies until the entire excess amount is withdrawn or absorbed by new contribution room in subsequent years.

The CRA will advise you when an excess contribution occurs.

Qualified Investments

The types of investments eligible for TFSAs are restricted under the Income Tax Act. Options available through credit unions vary and may include:

- Term deposits and GICs.
- Variable interest savings accounts.
- Credit union shares.
- Index-linked term deposits.
- Mutual funds.
- Publicly traded securities.
- Bonds.

There are restrictions on holdings in a self-directed TFSA. Entrepreneurs and small business owners should check these rules carefully, particularly regarding investments in companies or ventures where you hold a significant financial investment (generally more than 10%) or where there is a non-arm's length relationship.

There are punitive tax measures that discourage holding non-qualified/prohibited investments and asset transfer transactions (swap transactions).

TYPES OF TFSA INVESTMENTS

A TFSA may contain any of a number of eligible investment vehicles, including deposit-type savings accounts, mutual funds or self-directed plans. Your credit union investment specialist can help you choose the right one based on your goals and your tolerance for investment risk.

Withdrawals

One of the great advantages of TFSA accounts is that you can withdraw funds at any time (may be subject to investment terms). Withdrawals are not subject to income tax, and do not impact eligibility for federal income tested benefits and credits (e.g. OAS, GIS, Age Credit, GST, EI, Canada Child Benefit, working income tax benefit).

Withdrawals from TFSA accounts will increase your contribution room in the following year, but not for the year of withdrawal.

TRANSFERS

TFSA funds are transferable to another TFSA owned by:

- **You, under a direct transfer.**
- **A former spouse/CLP, on relationship breakdown.**

NOTE: Where a transfer from one TFSA to another TFSA for the same holder is not direct, the transactions may result in an excess contribution situation. A transfer due to relationship breakdown will not affect the TFSA contribution room of the holder or former spouse/CLP.

Death of a TFSA Holder

You may appoint your spouse/CLP as successor holder of your TFSA. Upon your death, your spouse/CLP will become the holder of the TFSA.

Where your spouse/CLP is the designated beneficiary and is not specifically appointed successor holder, any income/gain earned after your death will not be tax sheltered. Your spouse/CLP may contribute an amount, not exceeding the fair market value (FMV) at date of death, without impacting his/her unused TFSA contribution room. The contribution must be made before December 31 of the year following the year of death. In addition, within 30 days of making that contribution or at a later time as permitted by the CRA, your spouse/CLP must provide the CRA with a completed RC240 Designation of an Exempt Contribution Tax-Free Savings Account (TFSA).

You may designate someone other than your spouse/CLP as beneficiary of the TFSA, or you may choose not to name any beneficiary at all. In either circumstance, the fair market value of the TFSA at date of death are tax-free; however, any increase in value of the TFSA after date of death becomes taxable income either of the beneficiary or of your estate, depending on the circumstances and the date of payments.

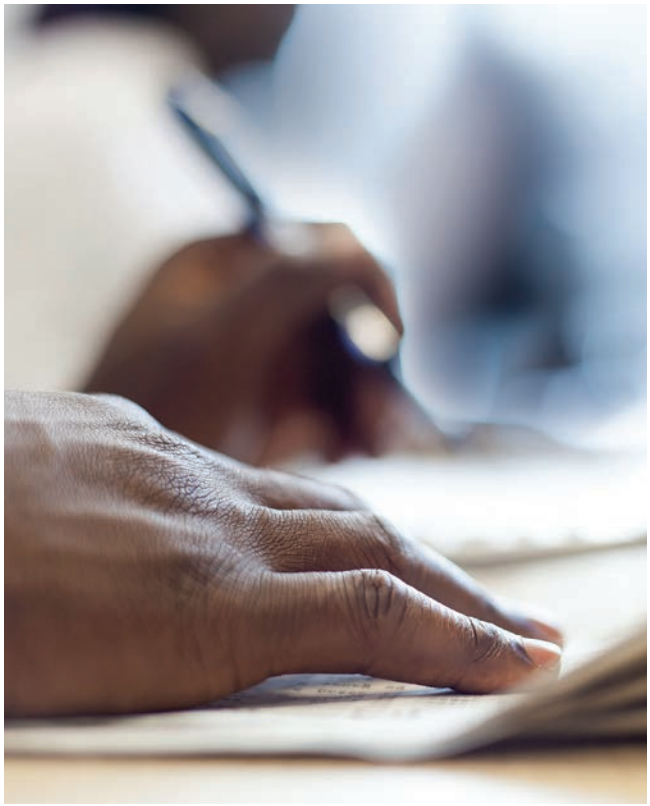
NOTE: Where, at the time of your death, you reside in Quebec, your spouse/CLP cannot become the successor holder of your TFSA. A designation of beneficiary is also not recognized in Quebec.

Non-resident Holder

In the event you are no longer a resident of Canada, the following rules apply:

- The TFSA may remain open.
- Contribution room will not accumulate.
- If you make a contribution while you are a non-resident, you will be subject to a 1% per month penalty tax for each month until the contribution is withdrawn or you become a resident of Canada.
- Withdrawals will increase contribution room; however, you cannot take advantage of the increased contribution room until you become a resident of Canada.

If you subsequently become a resident of Canada, contribution room will commence accruing and you may make future contributions.



Surname, SIN, Birthdate Must Match CRA Records

The CRA will register your TFSA when your surname, SIN and birthdate match the CRA records. If one of these items does not match the CRA records, your TFSA cannot be registered, meaning interest earned on contributions is not tax sheltered.

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www.cambrian.mb.ca

To learn more about TFSA'S **click here**.

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Prepared with assistance by SaskCentral, Central 1, Concentra and Peter Bellworthy.

The information in this publication is summary in nature and does not constitute legal or financial advice. This brochure is provided by your local credit union and is designed to inform you about TFSAs.

For more information about these or any other financial product, please contact our knowledgeable staff.