SAVINGS

THE TFSA, A TAX-FREE SAVINGS TOOL FOR EVERYONE!

iA Financial Group

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TAX-FREE SAVINGS ACCOUNT (TFSA)

Program available since January 1, 2009. This savings vehicle is the most advantageous tax-wise since the arrival of the registered retirement savings plan (RRSP). It allows your clients to set money aside and let it grow tax-free during their entire lifetime.

Who

- Canadian residents
- Contribution room accumulates starting at 18 years of age
- SIN holders

Contribution room for 2024

$7,000 (indexed and rounded to nearest $500)

Unused contributions

Unused contributions from the preceding year are added to the current year's limits indefinitely. The amount withdrawn in the previous year are added to the contributions for the following year, complementing the annual ceiling.

Contribution deduction and tax on withdrawals

TFSA contributions are not tax-deductible. Investment income earned in the account is not taxed.

Withdrawals

Non-taxable and no restrictions on the amount or frequency of withdrawals.

Eligible investments

The same types of investments eligible for an RRSP:

- Segregated funds
- Guaranteed interest funds
- High interest savings account
- Daily interest fund+

Impacts on income-based benefits

Neither withdrawals from nor contributions to a TFSA affect eligibility for income-based benefits (such as OAS, GSB, Canada Child Tax Benefit or GST) or credits granted under income tax legislation.

Personal contribution room

- The Canada Revenue Agency (CRA) determines the contribution limits to a TFSA (according to the information supplied by the issuers) for each eligible person who produces an annual personal income tax return (T1).
- People who did not complete returns for past years (e.g. because they did not have income tax to pay) are permitted to establish contribution limits by producing a return for these years or by using other methods deemed acceptable by the CRA.

Excess contributions

- Excess contributions and the revenue they generate are subject to the same penalty as that for an RRSP — 1% a month — starting with the first dollar of excess contribution.
- No excess contributions are permitted.

Collateral assignment

Unlike an RRSP, it is possible to assign a contract as collateral.

Income-splitting tools

Individuals can donate money to their spouse, who can use the funds to contribute to their own TFSA. Attribution rules do not apply, and as such, the investment income is not attributed to the person who made the donation.

End of marriage or civil union

- A TFSA is not included in the divisible assets of an estate in the event of divorce.
- However, if the marriage is under the partnership of acquests regime in Quebec, the TFSA is part of the household assets and is subject to division.
- It is possible to transfer amounts directly from one's
- own TFSA to a spouse's or common law spouse's TFSA. Under these circumstances, the transfer does not affect the contribution amounts for these two people.

Death

- At death, assets held within a TFSA (but not the TFSA itself) can be transferred to any legatee without tax consequences.
- However, income generated from the date of death must be included in the estate tax return.
- Only spouses can receive a TFSA in its entirety without affecting their own contribution rights.

End of Canadian residence

- Termination of Canadian residence does not result in the dissolution of a TFSA.
- All tax benefits are retained.
- However, the individual accumulates no contribution room while a non-resident.

Main differences between a TFSA and an RRSP

- No annual taxation for income generated in the contract.
- Interest paid on amounts borrowed to contribute to an RRSP or a TFSA are not tax-deductible.

	TFSA	RRSP
Registration	Registered	Registered
Age for eligibility	18	None
Age limit to contribute	None	71
Annual contribution limit	2024: $7,000 2023 : $6,500 2024 cumulative contributions: $95,000	18% of earned income, less the pension adjustment (maximum $30,780 for 2023 and $31,560 for 2024)
Contribution deduction	No	Yes
Taxation on withdrawal	No	Yes, full
Withdrawals and contribution room	Contribution room can be recovered in full when sums are withdrawn	All contribution room is lost when sums are withdrawn
Unused contributions	Carried forward and accumulated	Carried forward and accumulated
Excess contributions	Penalty of 1%/month	Penalty of 1%/month $2,000 excess contribution allowed
Eligible investments	Segregated funds, guaranteed interest funds, high interest savings account, daily interest fund+	Segregated funds, guaranteed interest funds, high interest savings account, daily interest fund+
Impacts on government programs	As withdrawals are not added to income, they do not change eligibility	Withdrawals, which are added to income, can change eligibility
Collateral assignment	Can be assigned as collateral	Cannot be assigned

Why should you propose the TFSA to your clients?

- To offer a complementary savings tool with almost unlimited flexibility
- To offer an alternative to non-registered investments
- Because a TFSA is sometimes more beneficial than an RRSP

Like the RRSP, the TFSA has the following characteristics:

- Interest accumulates tax free
- Cumulative contribution room
- No annual taxation on income generated
- Interest paid on sums borrowed to contribute is not deductible
- Excess contributions and the income that they generate are subject to a penalty of 1% a month (no excess margin is allowed for the TFSA)
- A wide range of investments is available

The TFSA also has unique benefits, such as:

- Non-taxable withdrawals
- Flexibility for withdrawals
- Tax shelter for investment income generated by large sums of money such as an inheritance
- No effect on income-based government benefits
- Ideal complement to an RRSP or to accomplish personal projects or other short- or long-term savings goals
- Income-splitting tool

Contribution room

Contribution room is the same for everyone, and not linked to income.

TFSA contribution room

Year	Maximum contribution to TFSA
2024	$7,000
2023	$6,500
2019 to 2022	$6,000
2016, 2017 and 2018	$5,500
2015	$10,000
2013 and 2014	$5,500
2009 to 2012	$5,000
Cumulative total	**$95,000**

- Just like the RRSP, unused contribution room accumulates from year to year. This contribution room is available for clients age 18 and older starting in January 2009.
- Another definite advantage of the TFSA is the recovery of contribution room following withdrawals. Any amount withdrawn over the year will be added to the contribution room for the following year.

The following table gives an example of calculations for contribution room.

Year	Annual contribution room (plus)	Contribution (less)	Withdrawal (plus)	Cumulative contribution room (end of year)
2009	$5,000	$3,000	–	$2,000
2010	$5,000	$2,000	–	$5,000
2011	$5,000	–	$4,000	$14,000
2012	$5,000	–	–	$19,000

- The TFSA is a good income-splitting tool because it’s possible to contribute amounts provided by a spouse (married or common-law partner) without attribution rules applying. A parent could do the same with their child (as long as the child is at least 18 years old).

TFSA OR RRSP?

To effectively advise your client concerning the best choice between an RRSP and a TFSA, the tax rates during one's active life and during retirement must be taken into account.

Tax rate at time of contribution **>** Tax rate at withdrawal
RRSP more beneficial*

Tax rate at time of contribution **=** Tax rate at withdrawal
TFSA and RRSP are equally beneficial

Tax rate at time of contribution **<** Tax rate at withdrawal
TFSA more beneficial

* Important: Unlike in the case of a TFSA, RRSP withdrawals may have an effect on income-based government benefits (such as Old Age Security and Guaranteed Income Supplement).

Exemple

Karina plans to retire in 20 years. Until then, she expects to save $3,000 each year.

During her retirement, she wants to receive **$6,000** net per year from these savings. She wonders if it would be better for her to invest this money in a TFSA or an RRSP.

— Annual savings: **$3,000** at the beginning of the year for 20 years

— Marginal tax rate for the next 20 years: **40%**

— Rate of return: **5.5%**

— Tax rate at retirement – 3 assumptions: **35%, 40%, 45%**

Tax rate active life

	TFSA 40%	RRSP 40%
Gross amount	**$3,000**	**$3,000**
Less taxes	$1,200	$0
Contribution	**$1,800**	**$3,000**

Accumulation

	TFSA 40%	RRSP 40%
End of year 1	$1,899	$3,165
End of year 20	**$66,215**	**$110,358**

Disbursement

When she retires, Karina will have to withdraw higher amounts from her RRSP than her TFSA to obtain a net annual income of $6,000. In fact, she will have to make the following withdrawals:

	TFSA	RRSP 35%	RRSP 40%	RRSP 45%
Gross amount	**$6,000**	**$9,231**	**$10,000**	**$10,909**
Less taxes	$0	$3,231	$4,000	$4,909
Contribution	**$6,000**	**$6,000**	**$6,000**	**$6,000**

Now let's see how long her income will last according to each option.

	TFSA	RRSP 35%	RRSP 40%	RRSP 45%
Annual withdrawal	**$6,000**	**$9,231**	**$10,000**	**$10,909**
0	$66,215	$110,358	$110,358	$110,358
5	$53,054	$92,715	$88,423	$83,351
10	$35,852	$69,655	$59,754	$48,052
15	$13,371	$39,518	$22,286	$1,918
16	$8,107	$32,460	$13,511	$-8,825
17	$2,552	$25,015	$4,254	$-20,283
18	-$3,307	$17,159	$-5,512	$-32,307
19	-$9,489	$8,872	$-15,815	$-44,993
20	-$16,011	$129	$-26,685	$-58,377
21	-$22,892	$-9,095	$-38,152	$-72,497
Duration	**16,4 years**	**19 years**	**16,7 years**	**15,3 years**

We can see that the expected tax rate during retirement is a factor that must be considered when it comes to choosing between a TFSA and an RRSP

TFSA OR NON-REGISTERED SAVINGS?

Every year, Jack has cash on hand that he doesn't need in the short term. He asks himself if it's better to put this money in a non-registered account or in a TFSA.

— Annual deposit: **$5,000**
— Interest rate: **5%**
— Marginal tax rate: **40%**

	TFSA	Non-registered
Contribution	$5,000	$5,000
Interest income	$250	$250
Income tax	$0	$100
Balance after 1 year	$5,250	$5,150
Net return after 1 year	**5%**	**3%**

To obtain the same net return of 5% as with the TFSA, the non-registered savings gross return must be 7%. The TFSA is thus perfectly adapted for non-registered savings.

Now let's see the results after 10 years if Jack saves $5,000 at the beginning of every year.

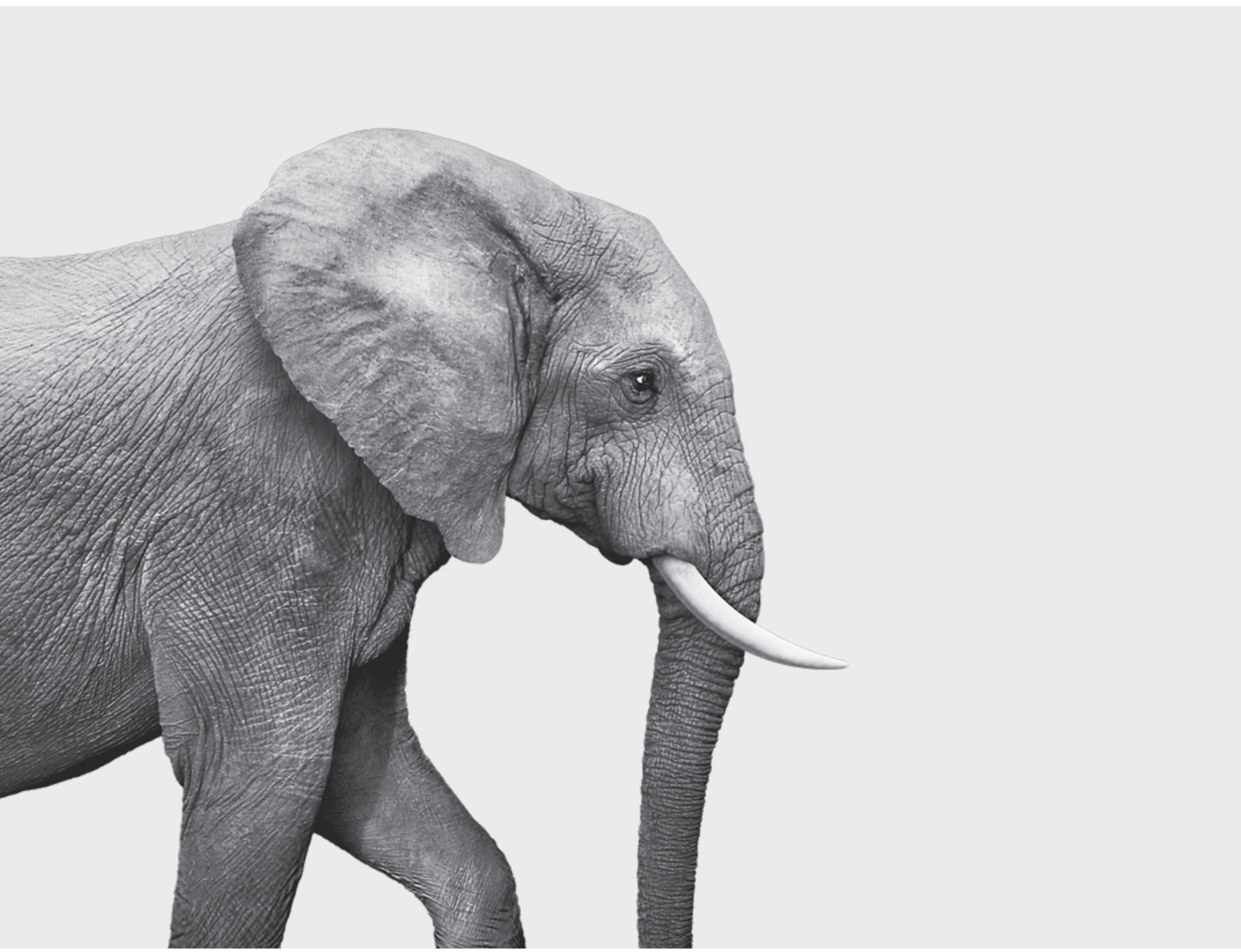
End of Year	TFSA	Non-registered
1	$5,250.00	$5,150.00
2	$10,762.50	$10,454.50
3	$16,550.63	$5,918.14
4	$22,628.16	$21,545.68
5	$29,009.56	$27,342.05
6	$35,710.04	$33,312.31
7	$42,745.54	$39,461.68
8	$50,132.82	$45,795.53
9	$57,889.46	$52,319.40
10	**$66,033.94**	**$59,038.98**

10 GOOD REASONS TO BE INTERESTED IN A TFSA

1	Your clients who no longer have any debt on personal-use property, such as a mortgage or car loan.	Suggest they save the equivalent of their loan/ mortgage payments (up to the maximum allowed).
2	Your clients with non-registered savings.	Suggest they transfer their non-registered savings to a TFSA.
3	Your clients without any more RRSP contribution room.	Suggest they make a TFSA contribution for amounts they cannot put in an RRSP because of contribution limits.
4	Your clients who are self-employed workers whose net income is not high enough to generate a substantial income tax return.	The TFSA is a perfect fit.
5	Your clients starting their career whose tax rate isn't very high. They prefer to use their RRSP contribution room later, when their deductions generate greater income tax savings.	The TFSA is a perfect fit.
6	Your clients expecting that their tax rate will be higher at retirement than during their active life.	The TFSA is a perfect fit.
7	Your retired clients who have exhausted their RRSP contribution room or who are older than 71 and want to continue saving tax free.	Suggest that they contribute the maximum they can.
8	Your clients who want an income source other than their RRSP during their first years of retirement so that they can continue to defer taxes.	Suggest that they contribute the maximum they can. Older people often want to continue saving during retirement in case they need medical or other care or simply because they don't need this money.
9	Your clients with both 1) a spouse who doesn't have the means to contribute to a TFSA and/or children over age 18 still in school or unemployed, and 2) money to invest in excess of their RRSP and TFSA contribution room.	Their spouse and/or children can open a TFSA and contribute amounts that the client would have previously given them. The attribution rules do not apply.
10	Your clients looking to put money aside for charitable works or for their children. Until now, there had been no way for them to save tax free.	Suggest that they contribute the maximum they can.

PROMOTE IT TODAY!

Thanks to the TFSA, your clients will finally enjoy a true tax shelter.
Who could really pass that up?



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