Manulife Bank

For your future™

A few facts about tax-free savings accounts

What is a tax-free savings account (TFSA)?

A TFSA is a type of savings account introduced by the Canadian Government on January 1, 2009. It's unique from other savings accounts in that its growth (that is, the interest earned on the savings) is not taxable by the government. TFSAs are available for Canadian residents who are 18 years of age and older, who have a valid Social Insurance Number.

The account holder may use the account to save for any purpose and may make withdrawals at any time.

Why it's called "tax-free"

Most often, the interest earned in a savings account is taxed by the government. When you save money in a tax-free savings account, the interest earned in the account is not taxed so you do not have to claim it on your income taxes. Also, there are no taxes due when you withdraw money from a tax-free savings account. The withdrawal is not added to your income.

However, the contributions are not tax deductible. That is, they do not reduce your income for tax purposes.

Minimum and maximum deposits

While there is no minimum amount required to open a tax-free savings account, there is a maximum that each individual may contribute to their TFSA each year. In general, the contribution room that has been allotted to each eligible person since 2009 is $5,000 per year. The new contribution room is announced each year by the Canada Revenue Agency and could change in the future due to inflation.

Each eligible person may have more than one tax-free savings account but the total savings in all your accounts must not exceed your total personal contribution room. You may only deposit up to your maximum contribution room in each given year across all accounts. If you have not contributed your maximum amount into your account in a year, any unused contribution room will carry forward to the following year.

Withdrawal and re-deposit rules

If you have contributed your maximum amount into your account and then withdraw money, you may not deposit that amount back into the account in the same year. You must wait until the following year to contribute that same amount of money back into the account.

If you don't wait and you over-contribute, the Canada Revenue Agency will charge a monthly penalty of 1% on the highest excess amount.

Explaining withdrawals and deposits

Example 1
Bob has $5,000 contribution room available in 2012 (currently his balance is $15,597.62 at the end of 2011[1])
■ He contributes $3,000 in January 2012.
■ This leaves him with $2,000 available contribution room for 2012 ($5,000 - $3,000).
■ He then withdraws $6,000 in April 2012 to put towards a new car.
■ In 2013, Bob will have the new $5,000 contribution room plus the $2,000 unused room from 2012, plus the $6,000 contribution room from his withdrawal in April 2012, equaling total contribution room of $13,000 for 2013.

Example 2

Joanne has $11,000 contribution room for 2012 ($5000 (contribution room from 2012) + $5,000 (contribution room she didn't use in 2011) + $1,000 (unused contribution room from 2010))

- She contributes $4,000 in February 2012.
- She contributes another $5,000 in July 2012.
- She then contributes another $2,000 in September 2012.
- Joanne has now contributed all $11,000 that she had room for at the beginning of 2012.
- In October 2012, Joanne withdraws $7,000 for home renovations.
- She wants to make a deposit into this account in December, can she?
- The answer is "no." She cannot contribute any more money in 2012 without incurring a penalty because she has already contributed her maximum for 2012.
- In 2013, she will have the new $5,000 contribution room plus the $7,000 room from the withdrawal she took in October 2012, equaling $12,000 contribution room for 2013.

Appointing a successor or beneficiary

For your TFSA, you may name a successor, a beneficiary or both.

- **Successor** – must be a spouse or common-law partner. The successor will take over the TFSA without any tax implications and it will not affect their own contribution room.[2]
- **Beneficiary** – can be anyone who is considered eligible, based on guidelines set out by the Canada Revenue Agency and there can be more than one. The funds will be paid out to the beneficiary and, if they choose to put it in a TFSA, it will impact their contribution room.[2]

Professional advice can be helpful

Knowing whether to put your savings into a tax-free savings account, an RRSP or some other savings vehicle can require professional expertise. We recommend speaking with your financial advisor for advice or to learn more about this type of account.

If you have any questions about Manulife Bank's tax-free savings accounts, you can speak with a Manulife Bank Service Representative at 1-877-765-2265. The Government of Canada has more information about tax-free savings accounts at their website, www.tfsa.gc.ca.

[1]The amount of $15,597.62 is based on depositing $5,000 into a Tax-free Advantage Account on January 1 every year since 2009 and taking no withdrawals.

[2]Note that transfers to successors or beneficiaries are subject to provincial regulations.

Tax-Free Savings Accounts (TFSAs) are offered through Manulife Bank of Canada. Each individual's eligibility and contribution limits are determined by Canada Revenue Agency. Only Canadian residents 18 years of age or older are eligible to open a TFSA or contribute to one. The account holder is the only person who can contribute to the TFSA. Contact your financial advisor for more details.

Examples are for illustration purposes only.

For more information, please visit manulifebank.ca.

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