LONGVIEW
Asset Management Ltd.

TAX-FREE SAVINGS ACCOUNT (TFSA) PRIMER

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- Tax-Free Savings Accounts (TFSAs) were introduced in Canada in 2009, as flexible, long-term savings vehicles.
- Any Canadian resident aged 18 and older may contribute capital to a TFSA.
- Investment income earned inside a TFSA, including interest, dividends and capital gains, is generally not taxed and the capital can grow on a tax-free basis indefinitely. (Note: certain securities are subject to some taxes so, ideally, should not be held in a TFSA – see FAQs on next page).
- Contributions to a TFSA are not deductible for income tax purposes.
- No tax is paid on withdrawals from a TFSA.

Contributions

- Contributions can be made at any time during the year. There is a maximum annual contribution limit set by the Canada Revenue Agency (CRA), which can change from year-to-year – see table below.
- TFSA contribution room is cumulative, meaning any unused room from previous years (back to 2009, when TFSAs were created) can be carried forward.
- Your contribution room can be found in your online CRA account ("My Account For Individuals"). Because the CRA account details are only updated annually, at the end of February, they may not reflect all prior year transactions. You should keep your own record of contributions and withdrawals.

TFSA Annual Contribution Limits (C$)

Cumulative 2009-2024	2024	2023	2019-2022	2016-2018	2015	2013-2014	2009-2012
$95,000	$7,000	$6,500	$6,000	$5,500	$10,000	$5,500	$5,000

Withdrawals

- Withdrawals can be made at any time and for any purpose. Any amount withdrawn is then added to your available contribution room in the following calendar year – i.e., you cannot replace the withdrawn capital until the following calendar year.
- If you over-contribute to your TFSA, the CRA will charge you a penalty equal to 1% per month on the excess contribution amount until it is withdrawn. Investment income earned on the excess may also be subject to penalties.

Estate Planning

- For estate planning purposes, you can name a Successor Holder or Beneficiaries for your TFSA. You can also name Contingent Beneficiaries for your TFSA.
- Only surviving spouses and common-law partners can be named as Successor Holders. The Successor Holder takes over the TFSA of the deceased spouse/partner. The investments can continue to grow tax-free in the TFSA, although no further contributions may be made, or they can be combined with the Successor Holder's TFSA.
- Anyone can be named a Beneficiary of a TFSA. On death, a Beneficiary receives the account value on a tax-free basis. Unlike a Successor Holder, the capital is distributed and is no longer in a TFSA. If the Primary Beneficiary is also deceased at the time of your death, the account value can be transferred to a Contingent Beneficiary.

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FREQUENTLY ASKED QUESTIONS (FAQs)

How is a TFSA different from an RRSP?

- Both types of accounts are powerful in helping you to build long-term wealth. However, there are some key differences worth noting. Unlike an RRSP:
    - Contributions to a TFSA are not tax-deductible.
    - Withdrawals from a TFSA are tax-free and do not result in lost contribution room (i.e., they may be replaced).
    - You do not need earned income to accumulate contribution room in a TFSA.
    - You do not need to close the TFSA and begin withdrawing funds at the end of the year you turn 71.
    - You can give money to your spouse to contribute to a TFSA without being subject to CRA attribution rules.

Can I use capital losses in my TFSA to offset other capital gains?

- No. You will not pay tax on the investment income and capital gains earned inside the TFSA. Because of this, you can not use losses in the account to offset taxable capital gains outside of the TFSA.

Can I open a joint TFSA account?

- No. Government rules permit only individual accounts.

Can I use a TFSA to frequently trade securities?

- If you are an active trader inside your TFSA – say, dozens of times each year – the CRA may consider you a day-trader and could classify the account as a business account. If a TFSA is considered to be carrying on a business, there may be taxes imposed by the CRA.

Is the TFSA margin-eligible?

- TFSAs are not eligible for margin, and short-selling in a TFSA is not permitted.

What types of investments can I own in a TFSA?

- You can own a wide variety of investments including cash, cash equivalents and securities listed on qualified exchanges, including bonds, stocks, exchange-traded funds, mutual funds and options.

- There are certain types of securities that can be owned in a TFSA, but ideally should not be because they incur some tax even inside the TFSA. For example, for Canadian residents, none of the U.S. withholding tax incurred on the dividends of U.S. listed stocks is recoverable if received inside a TFSA, unlike if held in a taxable account or RRSP.

If I have limited financial capacity, should I contribute to my TFSA before or after my RRSP?

- The answer is specific to your circumstances, so you may want to seek advice. Generally, if you are earning enough to be in a higher income tax bracket, you should contribute to your RRSP before your TFSA because reducing your income tax today will be the most beneficial option financially. Any leftover funds can then be contributed to your TFSA, up to your contribution limit.

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PRO TIPS

Play the Long Game

- Resist using your TFSA to save for short-term goals. The longer your TFSA has to grow tax-free, the more capital you will build. Withdrawing from a TFSA interrupts the tax-free compounding of the capital and is very expensive over time.
    - Example: If you contribute $7,000 (the 2024 contribution limit) each year from age 18 to 65 (total contributions of $336,000 over 48 years), and earn an average annual investment return of 8%, your TFSA will be worth $3.7 million at the end of your 65th year, more than 11x the amount of the contributions.

Start Contributing Early

- Every dollar contributed to a TFSA when you are young is worth much more than those contributed later because the capital has more time to compound tax-free.
    - Example: Assuming an average annual investment return of 8%, $7,000 contributed once at age 18 will be worth more than $280,000 at the end of your 65th year (40x the amount contributed), whereas $7,000 contributed once at age 40 will be worth about $52,000 at the end of your 65th year (7x the amount contributed).
    - Example: If a person contributes to their TFSA from age 18 up to and including their 30th year (13 years total), by the end of their 65th year they will have 1.7x more capital in their TFSA than a person who contributes from age 30 up to and including age 65 (36 years total), assuming the same annual contribution amounts and an average annual investment return of 8%.

Make it Productive

- While time is a major factor in how much capital you can build in your TFSA (see above), the rate of return earned on your capital is the other major driver, with the impact increasing with the number of years you are invested.
    - Example: If you contribute $7,000 each year from age 18 up to and including age 65 (total contributions of $336,000 over 48 years), the value of your TFSA at the end of your 65th year will be $3.7 million if you earn an 8% annualized return, but only $1.4 million if you earn 5%.

Income Splitting

- If you happen to be the higher income earner, you can gift money to your spouse or partner, which they can then use to contribute to their TFSA. The tax-free nature of the TFSA means that there is no impact on any spousal tax credits and boosts your family's your tax-free earnings potential in the process.

Fees

- Investment management fees attributable to a TFSA are not deductible for income tax purposes. Nonetheless, you can ask your investment manager to deduct the fees attributable to your TFSA from your taxable account, to maximize the capital that remains in your TFSA.

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