



Tax-Free Savings Account (TFSA)

TFSA is a registered savings account that allows taxpayers to earn investment income tax-free inside the account. Contributions to the account are not deductible for tax purposes, and withdrawals of contributions and earnings from the account are not taxable.

(1) Who would be eligible to open a TFSA?

Any individual (other than a trust) who is a resident of Canada and 18 years of age or older would be eligible to establish a TFSA.

Note: Age of Majority: Although every Canadian who is 18 or older will receive \$5,000 in TFSA contribution room, not every 18-year old may be able to open a TFSA account. British Columbia, New Brunswick, Newfoundland/Labrador, Nova Scotia and the three territories have an age of majority of 19 years old.

(2) How much can I contribute to the TFSA per year?

Each year you could contribute an amount up to your contribution room for the year. Your contribution room would be made up of three amounts:

- (a) Each year you would be allocated and allowed to contribute at least \$5,000 (this annual amount will be indexed to inflation and rounded to the nearest \$500 on a yearly basis.
- (b) Any withdrawals made in the previous year would be added to the contribution room for the year.
- (c) Any unused contribution room from the previous year would be added to the contribution room for the year.

(3) If I don't have the money to invest in a given year, would I be able to use any unused contribution in a future year?

Yes, there is no limit on the number of years unused contribution room could be carried forward.

(4) What happens if I contribute more than my contribution room?

The excess contributions would be subject to tax of one percent per month, for each month that the excess remains in the plan.

(5) Would there be any restrictions on withdrawals?

No, you could withdraw any amount in the account for any reason.

(6) What kind of investments can I hold in my TFSA?

A TFSA would generally be permitted to hold the same investments as a registered retirement savings plan. This would include Canadian controlled private company shares (CCPC), Mortgage Investment Corporations (MIC), Arms Length mortgages, mutual funds, publicly traded securities, GICs and bonds.

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FLEXIBILITY, CONVENIENCE AND CHOICE

(7) Is interest on money borrowed to invest in my TFSA tax-deductible?

No, interest on money borrowed to invest in a TFSA would not be deductible for tax purposes.

(8) Could I use my TFSA assets as security for a loan?

Yes, you could use the TFSA assets as security for a loan.

(9) If I provide funds to my spouse or common-law partner to invest in a TFSA, would the income earned in that account be attributed back to me?

No, the attribution rules would not apply to income earned in a TFSA where you provide funds to your spouse or common-law partner to take advantage of their TFSA contribution room.

(10) What happens if the account holder passes away?

Generally, earnings that accrue in the account after the account holder's death will be taxable, while those that accrued before death would remain exempt. However, it would be possible to maintain the tax-free status of the earnings if the account holder names his or her spouse or common-law partner as the successor account holder. Alternatively, the assets of the deceased's TFSA could be transferred to the TFSA of the surviving spouse or common-law partner without any impact on the survivor's existing contribution.

(11) Can a TFSA plan holder name his or her spouse or common-law partner as the successor holder on the TFSA plan documents?

Yes. This means that upon the death of the plan holder, the successor holder will become the new plan holder and the TFSA will maintain its tax exempt status.

(12) Can an individual make the eligible contribution in cash only or can the contribution also be made "in kind"?

Individuals will be allowed to make in kind contributions to their TFSA, provided that the property is a qualified investment. As is the case with RRSPs, the individual will be considered to have disposed of the property for its fair market value at the time of the contribution. If the fair market value exceeds the cost of the property, the individual will have to report the capital gain in their income tax return. However, if the fair market value is less than the original cost, the resulting capital loss cannot be claimed. The amount of the contribution will be equal to the fair market value of the property.

(13) Could I still contribute to a TFSA if I become a non-resident of Canada?

Any contributions made while the individual is a non-resident will be subject to a special tax of one per cent per month of the contribution until the individual withdraws and designates the withdrawal as a withdrawal of the non-resident contribution or, if earlier, the individual becomes a resident in Canada. In addition, as no contribution room would accrue for any year throughout which the holder is a non-resident, the individual will be subject to another one per cent tax per month of the contribution on any excess TFSA amount.

Eligible Investments include:

- Arms length mortgages on real property located in Canada
- Qualified Canadian private company shares
- Shares of a Mortgage Investment Corporation (MIC)
- Stocks listed on a qualified stock exchange
- Bonds and debentures of Canadian corporations
- Qualified mutual funds
- Guaranteed Investment Certificates
- Rights and warrants for stocks listed on a prescribed stock exchange
- Canadian Government and Government guaranteed debt obligations including Federal, Provincial and Municipal debt
- Cash (Canadian dollars only)



(14) Can non-residents make withdrawals from their TFSAs?

Yes. Any withdrawal made during the period that the holder is a non-resident will be added back to the holder's unused TFSA contribution room in the following year but will only be available when the holder subsequently resumes residency status in Canada.

(15) What would happen if there was a breakdown of a marriage or a common-law partnership?

In such a situation, an amount would be transferred directly from one spouse or common-law partner's TFSA to the other's. The amount of the transfer would not affect either person's contribution room.