

TFSA

Tax-Free Savings Account

A **Tax-free savings account** (TFSA) is a way for Canadian residents 18 years of age or older to invest money and benefit from tax-free growth and tax-free withdrawals.

- The investment options are similar to those available for your RRSP or taxable investment account. For example, you can invest in GICs, mutual funds, Canadian and bonds.
- Unlike your RRSP, when withdrawing from your TFSA, you pay no income tax on capital gains or dividends.
- There are no deductions from income, like with RRSP contributions, but there is also no tax on withdrawals.
- Withdrawals can be recontributed in the next calendar year.
- Unused TFSA contribution room accumulates over time. There is no requirement to make annual contributions.
- The maximum annual contribution limit is set each year by the federal government.
- The 2023 TFSA annual contribution limit is \$6,500.
- Current maximum lifetime TFSA contribution is \$88,000.
- A TFSA is a great way to save and invest, and pay no income taxes on the growth (whether through interest, dividends or capital gains).
- For younger investors, it may be beneficial to save inside a TFSA, and when earning income in a higher tax bracket, withdraw funds (tax free) from their TFSA account, and use the funds to make RRSP contributions. Then, invest the RRSP tax refund back into the TFSA account, effectively enhancing the amount of funds in your portfolio growing tax-free.

Below is the annual and cumulative total contribution room since the TFSA's inception in 2009.

Your maximum total TFSA contribution room is based on your age and your prior year withdrawals.

For example, if you turned 18 in 2009 (or earlier), your total TFSA contribution room would be the maximum amount of \$88,000 if you never contributed to a TFSA.

If you turned 18 in 2023, then your total TFSA contribution room would be the maximum amount of \$6,500.

Starting on January 1 of each year, you can make your TFSA contribution for that calendar year.

If you are "catching up" and have unused TFSA contribution room, you can contribute at any time without restrictions.

Year	Annual	Cumulative
2009	\$5,000	\$5,000
2010	\$5,000	\$10,000
2011	\$5,000	\$15,000
2012	\$5,000	\$20,000
2013	\$5,500	\$25,500
2014	\$5,500	\$31,000
2015	\$10,000	\$41,000
2016	\$5,500	\$46,500
2017	\$5,500	\$52,000
2018	\$5,500	\$57,500
2019	\$6,000	\$63,500
2020	\$6,000	\$69,500
2021	\$6,000	\$75,500
2022	\$6,000	\$81,500
2023	\$6,500	\$88,000

Illustrating the long-term benefits of investing in a TFSA

Below is an example illustrating the growth that would result from making a TFSA contribution of \$6,500 per year (blue line) or investing \$6,500 per year with an annual return of 5.5 per cent.

This is an excellent example of the benefits of tax-free growth on investing inside a TFSA, and especially how important it is to start saving and investing at a young age.

$\$6,500/\text{year} = \$125/\text{week}$ (for 52 weeks)

Your future self will thank you!

At age 65, you would have \$1,345,398 growing at \$74,000/year (tax free).

Total lifetime TFSA contribution till age 65 would be \$305,500 (without indexing), resulting in growth in excess of \$1,000,000 and allowing you to make tax-free withdrawals at any time.

TFSA: 6,500/yr @ 5.5%

