Opportunities in the Tax-Free Savings Account

The annual TFSA contribution limit has been rolled back to $5,500 from $10,000 effective January 1, 2016. However, the $10,000 TFSA dollar limit remains effective for the 2015 year.

The TFSA offers an array of tax benefits to help you invest throughout your life. It's been described as the single most important personal investment vehicle since the introduction of the Registered Retirement Savings Plans (RRSP).

What's a TFSA?

The TFSA, launched by the Federal Government in 2009, is a savings account into which anyone 18 years of age and older can contribute $5,500 a year tax-free. The cumulative lifetime contribution amount as of 2016 is $46,500. The types of eligible investments available are similar to RRSPs, including bonds, GICs, and stocks that would otherwise generate taxable dividends or capital gains.

The money you contribute to your TFSA, unlike your RRSP contributions, is not tax deductible. However, income, losses, and gains in respect of investments held within a TFSA, as well as amounts withdrawn, are not taxable. In addition, they will not be taken into account in determining eligibility for federal income-tested benefits or tax credits such as the Canada Child Tax Benefit, the Goods and Services Tax Credit, the Age credit, Old Age Security benefits, the Guaranteed Income Supplement, or Employment Insurance benefits.

Flexible and Tax-Efficient

You have the option of putting the money back into your account however and whenever you please (subject to meeting the government's re-contribution rules), or not at all, unlike RRSP funds under the Home Buyers Plan (HBP), for example. The amount of withdrawals will be added to your contribution limit for the following year.

The TFSA is ideal for meeting immediate needs such as emergency funds, which generally are held in interest bearing cash-accounts and which are harshly taxed in Canada at the top marginal tax rate. By shielding these savings from tax, the TFSA will let you build heftier emergency funds.

Does the TFSA Replace the RRSP?

Not at all. While an RRSP is primarily intended for retirement, the TSFA is like an RRSP for everything else in your life. They're complementary tools that most people will probably want to use together, depending on their needs.

The advantages offered by each plan depend on the difference between your taxation rate when you make the contributions and the one you are subject to when you make withdrawals.

For those in the top marginal tax bracket, you'll most likely make RRSP contributions for the upfront tax deduction – then pump the refund back into a TFSA. But the biggest impact of the new account will be on those in low tax brackets, who may indeed choose TFSAs over RRSPs.

Deciding which strategies best suit your specific circumstances should be discussed with your Raymond James Financial Advisor, as the choice may not always be clear.

TFSA At-A-Glance

- Beginning in January 2009, Canadian residents aged 18 and older could save up to $5,000 every year in a TFSA.
- The contribution limit increased to $5,500 as of January 2013, and again to $10,000 for 2015. **Effective January 1, 2016, the annual contribution limit is back to $5,500.**
- Unused TFSA contribution room can be carried forward to future years.
- You can withdraw funds from the TFSA at any time for any purpose.
- The amount withdrawn can be put back in the TFSA at a later date without reducing your contribution room.
- Neither income earned in a TFSA nor withdrawals will affect your eligibility for federal income tested benefits and credits.

Talk to your Raymond James Advisor to learn more.

RAYMOND JAMES®