Manulife
Investment Management

Tax, Retirement, & Estate Planning Services

Tax-Free Savings Accounts (TFSAs)

The facts

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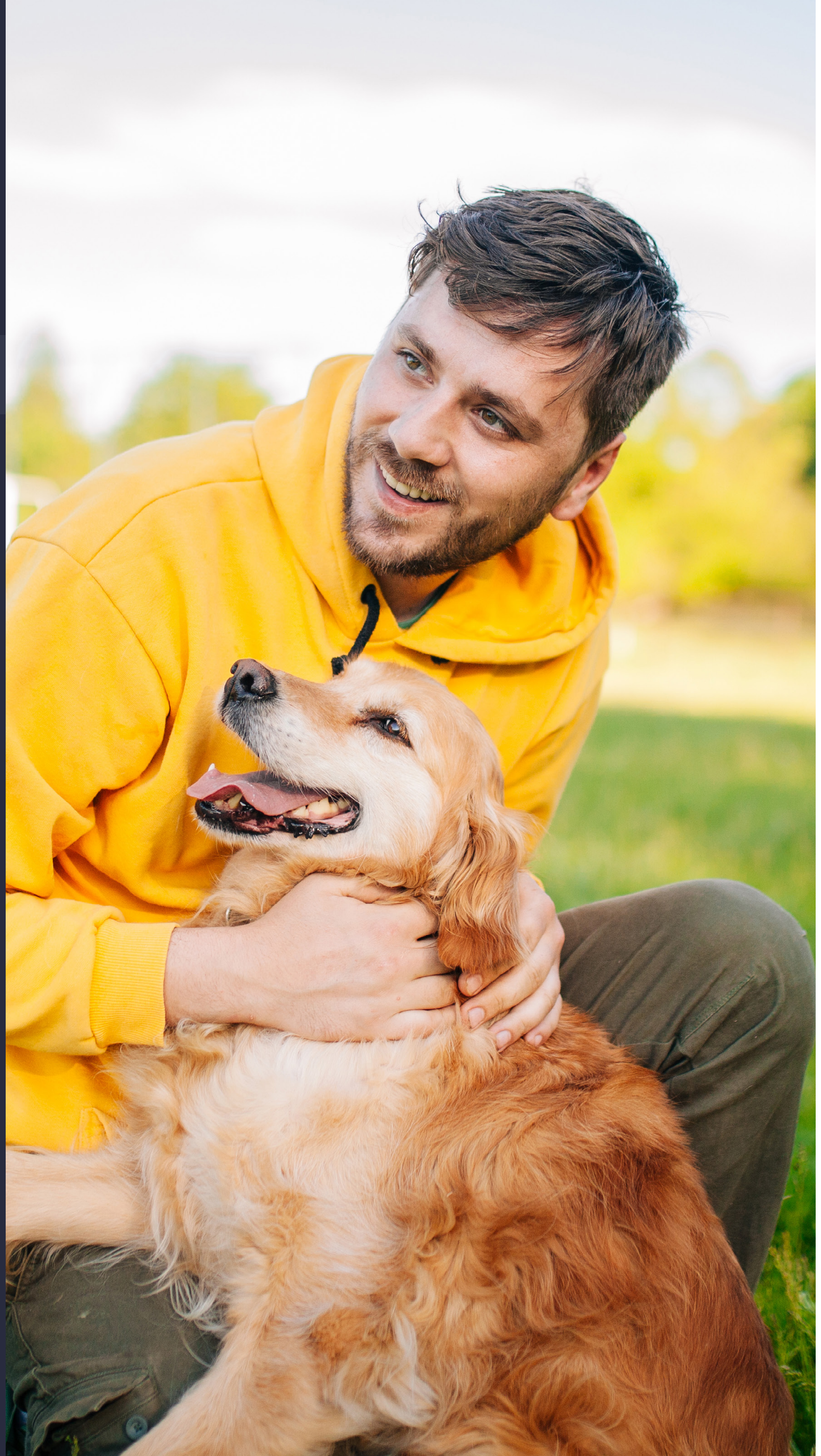

Until 2009, many Canadians held their savings in registered retirement savings plans (RRSPs), where they could claim a deduction for their contributions and then defer tax on withdrawals until retirement.

In *2009*, the TFSA became *available* to Canadians.

Whether you are saving for the short term (0–5 years) or for the longer term (6 years and beyond), a TFSA can be a valuable addition to your financial plan. When used to its full advantage, a TFSA can be a powerful tool to save money in a tax-free environment.

Manulife Investment Management has written this booklet to provide you with information you'll need to make the most of your savings. The booklet describes the technical details of TFSAs and offers some tips on how to maximize the tax-free investing available with these plans.

What is a TFSA?

A TFSA is a flexible, general-purpose savings vehicle that allows you to make contributions each year and to withdraw funds at any time in the future. A TFSA provides you with a powerful incentive to save by allowing the investment growth to accumulate and be withdrawn tax-free. However, unlike an RRSP, you can't claim a tax deduction for contributions you make to a TFSA and your withdrawals are added back to your unused contribution room for the following year.

You can open a TFSA at most financial institutions, including banks, trust companies, credit unions, life insurance companies, caisse populaires, mutual fund and brokerage firms. A TFSA may invest in a wide range of qualified investments such as stocks, bonds, and other popular portfolios including mutual funds, segregated fund contracts, and GICs.[1]

Once you contribute funds into a TFSA, any growth or income earned on the underlying investment will not be taxed nor will it be taken into account for the purposes of determining your eligibility for federal income-tested benefits and credits such as Old Age Security (OAS), the Guaranteed Income Supplement (GIS), the Canada Child Benefit (CCB), Employment Insurance (EI) benefits, goods and services tax/harmonized sales tax (GST/HST) credit, and the age amount credit.

There's no restriction on how withdrawals can be used. Withdrawals may be made for personal reasons, investment, education, or any other purpose.

[1] Includes guaranteed interest accounts offered by an insurance company and guaranteed investment certificates offered by a bank.

Why should I contribute to a TFSA?

Taxation of the investment growth can have a very unfavorable effect on your savings. For example, a seven per cent rate of return on an investment may sound good, but if the return is fully taxable at a 45 per cent marginal tax rate, you've actually only earned 3.85 per cent.

Let's compare three examples. Each scenario assumes you have $5,000 of pre-tax money available to invest at the beginning of each year, your annual rate of return is seven per cent, and your effective tax rate is 40 per cent. In the first scenario, $3,000 of after-tax money is contributed to your TFSA and would grow to $44,350 after 10 years. The second scenario assumes you will save the $3,000 after-tax money outside a TFSA, in a non-registered account, where the return is taxed in equal amounts as interest, dividends, and capital gains. Since this investment doesn't grow tax-free or can't be withdrawn tax-free, you would have $41,020.

	TFSA ($)	Non-registered ($)	RRSP ($)
Annual pre-tax income	5,000	5,000	5,000
Tax @ 40%	2,000	2,000	–
Net annual contribution for 10 years	3,000	3,000	5,000
Net investment income – 10 years @ 7%	14,350	13,140[3]	23,920
Value at the end of 10 years	44,350	43,140	73,920
Tax if withdrawn	–	2,120[4]	29,570
Net proceeds after 10 years	44,350	41,020	44,350

For illustration purposes only

In the third scenario, you contribute to an RRSP, and since the contribution is tax deductible, you could contribute $5,000 (provided you had sufficient earned income).[2] After 10 years you would have $73,920, but if you withdrew the entire amount in that year, you would have $44,350 after paying taxes, an identical result as the TFSA numbers.

A seven per cent rate of return on an investment may sound good, but if the return is fully taxable at a **45 per cent marginal tax rate**, you've actually only earned **3.85 per cent**.

[2] See Registered retirement savings plans (RRSP): The facts for more information on RRSPs.

[3] Assumes 25 per cent of investment income is taxed annually at 28 per cent and paid from the account.

[4] Capital gains tax at 20 per cent (adjusted cost base is $32,540).

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Should I contribute to a TFSA or an RRSP?

In general, RRSP savings will generate a higher net rate of return than the TFSA when the effective tax rate at the time of withdrawal is lower than the effective tax rate at the time of contribution. The TFSA will provide a higher return if the reverse occurs.

Whether to save in a TFSA or an RRSP or both will depend on your savings needs as well as your current and expected future financial situation and income level. In addition, the impact of income-tested benefits and credits and the flexibility to recontribute TFSA withdrawals should be taken into consideration.

Generally, an RRSP is used for saving for retirement, while a TFSA would be used for both saving for retirement and other shorter term purchases. Because TFSA withdrawals are added back to your available TFSA contribution room in the year following the year of withdrawal, there's very little downside to using the assets for mid-size to large purchases.

If you're in a low tax bracket, it'll probably be better to save in a TFSA since there's no impact on federal income-tested benefits such as CCB, OAS or GIS when the money is withdrawn. However, if you're in a higher tax bracket, you'll probably consider using both types of plans, the RRSP with the higher tax deductible limits for retirement planning and the TFSA for supplementary savings. Your advisor will be able to assist you in determining what's best in your situation.

How much can I contribute?

Starting in 2009, all Canadian residents who are 18 years of age or older can contribute a legislated dollar maximum[5] per year. If you do not contribute or don't contribute the full amount, the unused amount will carry forward to the next year. Unused contribution room can be carried forward indefinitely. For example, if you had unused contribution room of $10,000 at the end of 2023, you would be able to contribute up to $17,000 in 2024.

Also, if you withdraw money from your account, the amount will reinstate your TFSA room in the next calendar year. You can't contribute more than your TFSA contribution room in a given year, even if you make withdrawals from the account during the year. If you do so, you will be subject to a penalty tax for each month you are in an excess contribution position.

For example, if you made the maximum contribution each year through 2023 and withdrew $11,000 in 2023, you couldn't make further contributions in 2023. For 2024, your contribution limit would be the regular $7,000 plus the $11,000 you withdrew in the previous year, for a total of $18,000.

Based on information supplied by the various financial institutions issuing TFSAs, the Canada Revenue Agency (CRA) will track your available TFSA contribution room. You can access this information through the **My Account for Individuals website**.

What if I contribute too much?

The *Income Tax Act* (Canada) imposes a penalty of one per cent per month on the highest excess contribution amount at any time during the month.[6] This is unlike RRSPs, where a penalty on excess contributions is imposed on the excess amount at the end of the month. Generally, if you contribute more than your accumulated unused TFSA room in any given year, or withdraw an amount from your TFSA and recontribute it before the next year, and don't have the necessary TFSA room to make the contribution, you may be subject to the one per cent penalty per month on the highest excess amount for every month the excess was in the plan. The excess amount can be withdrawn to eliminate the penalty tax for subsequent months.

Can I contribute to my spouse's TFSA?

Provided your spouse[7] is a Canadian resident who's at least 18 years of age and has available TFSA contribution room, you can transfer property or funds to your spouse to contribute up to that amount to a TFSA that's in your spouse's name without any tax consequences or income attribution. Unlike a spousal RRSP, the amount that can be contributed is based on the spouse's TFSA contribution room and can only be made by your spouse, the holder of the account. You can't hold a TFSA jointly with your spouse. A TFSA must be held individually.

Can I set up a TFSA for my children?

As with a contribution to your spouse's TFSA, you could transfer property or funds to an adult child to contribute to a TFSA set up in your child's name provided they have available TFSA contribution room. Your child would then make a contribution directly to their TFSA.

If you withdraw money from your account, the amount will be reinstated to your TFSA room in the next calendar year.

[5] The annual contribution limit is currently $7,000 per year. Increases, rounded to the nearest $500, will be applied as warranted by the Consumer Price Index. The annual contribution limit was $5,000 for years 2009 through 2012, $5,500 for years 2013 and 2014, $10,000 for 2015, $5,500 for years 2016 through 2018, $6,000 for years 2019 through 2022, $6,500 for 2023, and $7,000 for 2024.

[6] Any income attributable to deliberate overcontributions will be taxed at 100 per cent.

[7] Spouse includes common-law partner as these terms are defined in the *Income Tax Act* (Canada).

Can I borrow to make a contribution?

Yes, you can borrow to make a contribution and the TFSA can be assigned as collateral for a loan.[8] However, the interest you pay on the loan isn't tax-deductible.

Can I have more than one plan?

You can have as many TFSAs as you wish as long as the total amount of contributions made does not exceed your unused contribution room for that year. You may prefer to have separate plans to take advantage of different investment options or financial institutions.The disadvantages of having more than one plan are that you may spend more time tracking the various plans and you may pay more in administration fees. Similar to RRSPs, these fees can't be claimed as a tax deduction.

Can I transfer between TFSAs or to a new TFSA?

You can transfer from one plan to another plan that's in your name provided the funds go directly to the new plan without having been paid to you first. If the funds are paid to you first, it will be considered a withdrawal and your TFSA room for the withdrawn amount won't be reinstated until the next year. This could result in a penalty situation. See the section titled "What if I contribute too much?"

What happens to my TFSA when I die?

Generally, the value of the TFSA at the date of death can be paid out tax-free. The amount will be paid to your named beneficiary, if applicable, otherwise to your estate.

Any investment growth earned after the date of death on a deposit or annuity contract (e.g. segregated fund contract) TFSA will be taxed in the same way as any other non-registered investment contract and reported to the beneficiary or estate as applicable. For TFSAs that are an arrangement in trust, the investment growth earned from the time of your death up to the end of the year following the year of death will be reported as "other income" if paid during this period. If the arrangement in trust TFSA still exists after this period, it becomes a taxable trust.

If you have a spouse at the time of your death, the TFSA can continue on a tax-free basis if your spouse becomes the successor holder or if the value of assets at the time of death are transferred to your spouse's TFSA. The transfer must occur prior to the end of the year following the year of death and the surviving spouse will designate the transferred amount as an exempt contribution so that it doesn't impact the spouse's TFSA contribution room.

Can I name a beneficiary?

Federal TFSA legislation allows for a spouse, including a common-law partner, to be named the successor holder following your death. To accommodate this, all provinces, except Quebec, have introduced legislation allowing the designation of a spousal beneficiary on a TFSA.

The exception to any deficiencies in provincial legislation is with plans offered by insurance companies. Legislation[9] exists to allow for beneficiary designations and the naming of a spouse as a successor holder.

At death, proceeds would be paid directly to the named beneficiary or transferred to the successor holder, if applicable. In all other cases, the proceeds would be paid to your estate.

[8] Borrowing to invest may not be appropriate for everyone. Clients must have the financial means to meet their loan obligations in full regardless of the performance or value of any investments held in their TFSA.

[9] Provincial insurance acts and the Quebec Civil Code.

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Note: If you're a U.S. resident or a U.S. citizen, the growth in your TFSA will be taxable under U.S. tax rules, as there's no treaty relief. It's important that you speak with a cross-border tax specialist.

When used to its full advantage, a TFSA can be a powerful tool to save money in a tax-free environment.

What happens in the event of marriage breakdown?

The legislation allows TFSA funds to transfer between spouse's plans in the event of marriage breakdown without impacting the recipient's TFSA contribution room. In this circumstance, the transfer won't reinstate contribution room of the transferor.

What if I'm no longer a resident of Canada?

If you become a non-resident of Canada, you can continue to hold a TFSA and you won't be taxed in Canada on any earnings in the account or on withdrawals from it.[10] However, you can't make subsequent contributions to your plan without incurring a penalty. Also, you won't accrue new contribution room while you're a non-resident. Any withdrawals made while you're a non-resident will be reinstated as contribution room in the following year but will only be available for use if you become a resident again.

Will TFSAs be protected from creditors in the event of bankruptcy?

At the time of this writing, TFSAs aren't included in the federal legislation that protects registered plans in the event of bankruptcy. TFSAs offered by insurance companies may provide creditor protection if your named beneficiary is a spouse, parent, child, or grandchild.[11]

[10] It's also important to understand the tax consequences of holding a TFSA under the tax laws of your country of residence or the country in which you are required to file tax returns. Discuss with your cross-border tax specialist.

[11] In Quebec, the applicable beneficiary designations are your married or civil-union spouse, ascendants, or descendants.

Can I day trade or actively trade in my TFSA?

Actively trading in your TFSA could be seen as carrying on a business. If this is the case, the income from that business is treated as fully taxable business income. To determine if your TFSA trading activity would be taxed as income, **criteria that establishes your course of conduct and intention** are used.

This includes: the intention to make a profit, whether the trading activity resembles that of a professional trader, the frequency of transactions, how long securities are held, your knowledge of the markets, whether trading forms part of your ordinary business, the time spent researching and trading, and trading speculative stocks or non-dividend paying stocks.

No single item makes your trading activity in a TFSA fully taxable business income. Rather a combination of these and how they apply to your specific trading activity could deem your trading to be business income. Speak to your tax advisor if you actively trade in your TFSA, to see if this tax treatment would apply to you.

Is there anything else I should know?

There are some unique opportunities available that will make wealth transfer more tax-effective than in the past.

Second generation—wealth transfer now

If you have assets specifically earmarked as a legacy for your adult children, you may want to consider giving an amount to them each year to put into their TFSA, so it can grow tax-free.

Also, if you have adult children and a spouse who aren't making TFSA contributions on their own, you could provide the funds so they could make a contribution thereby, increasing the amount of your combined investments that will grow on a tax-free basis.

Second generation—wealth transfer later

Unlike an RRSP or other assets held outside of your RRSP, which cause a tax liability in your estate at death due to the deemed disposition, a transfer of TFSA assets to your children won't cause a tax liability for your estate. The assets will transfer to them tax-free. Only investment income earned on the TFSA assets after your death will become taxable. If your child has sufficient TFSA room,the amount could be contributed to the child's own TFSA.

Comparison of saving options

	Non-registered	RRSP	TFSA
Annual contribution limit	Unlimited	Yes – based on earned income	Yes – no earnings requirement
Carry forward of unused room	n/a	Yes	Yes
Monthly penalty on excess contribution	n/a	Yes – at month end	Yes – on highest excess during month[12]
Tax-deductible contribution	No	Yes	No
Tax-deferred/tax-free investment growth	No	Yes – tax-deferred	Yes – tax free
Taxable on withdrawal	Taxable disposition	Fully taxable	Tax free – except for growth after death if no spouse/ successor holder
Withdrawals added to contribution room	n/a	No	Yes – following year[13]
Impacts income-tested benefits/credits	Yes	Yes	No
Minimum age to contribute	No	No	Yes – age 18
Maximum age to contribute	No	Yes – end of year age 71	No
Interest deductible on loan to invest	Yes	No	No
Assets used as collateral for loan	Yes	No	Yes
Tax-free/tax-deferred transfer to spouse on death	Yes	Yes	Yes – if successor holder or value at date of death
Tax-free/tax-deferred transfer to second generation at death	No – deemed disposition	No – fully taxable unless financially dependent	Yes – investment income after date of death is taxable
Loss denied on transfer-in-kind to plan	Yes	Yes	Yes

[12] Any income attributable to deliberate overcontributions will be taxed at 100 per cent.

[13] Withdrawal of amounts in respect of deliberate overcontributions, prohibited investments, non-qualified investments, asset transfer transactions, and income related to those amounts doesn't create additional TFSA contribution room.

TFSA options with Manulife Investment Management

Investment options*	GIF Select InvestmentPlus®	MPIP Segregated Pools[15]	Guaranteed Interest Accounts (GIAs) and Daily Interest Account (DIA)	Manulife Mutual Funds	Manulife exchange traded funds (ETFs)
Contract minimum	$2,500 or $50/mth. PAC	$100,000	$2,500 for GIF Select InvestmentPlus	N/A	N/A
Fund minimum	$500 per fund, $2,000 for Dollar Cost Averaging Fund	$100,000 per pool/portfolio, $1000 per pool/portfolio/contract for households of $250,000 or more	$1,000 per compound interest GIA term $5,000 per monthly simple interest GIA term DIAs have no minimum	$500	N/A
PAC	$50/mth. minimum per fund per sales charge option	Minimum $50 per pool/portfolio per sales charge option and DIA once contract minimums are reached	Minimum $50/month in DIA only (contract minimum must be met)	$25 (minimum per fund)	N/A
Contract maturity date	December 31 of the year the annuitant turns 100	December 31 of the year the annuitant turns 100	Annuitant's 100th birthday	N/A	N/A
Scheduled payment option	$100 a month per fund per sales option	$100 per month per pool/portfolio per sales charge option and DIA	Interest only	Distributions reinvested[14]	Annual capital gains distributions are reinvested and income is paid in cash —frequency varies depending on the ETF
Guaranteed income options	N/A	N/A	N/A	N/A	N/A
Cashability	Can withdraw market value at any time, less any fees if applicable[16]	Can withdraw market value at any time, less any fees if applicable[16]	For GIAs, surrender charges may apply if withdrawn prior to the maturity date of the term	Can withdraw market value less applicable deferred sales charge (DSC) any time	Can be sold on the Exchange and withdrawn at any time
Investment options	To access fund names and fund codes, go to Manulife's online price and performance tool.	To access fund names and fund codes, to to Manulife's online price and performance tool.	Daily interest account (DIA) One-month term One-year to 10-year terms (full terms only) Compound and monthly simple interest terms available for all registered and non-registered tax types To access GIA and DIA codes, please go to Manulife's online price and performance tool.	To access fund names and fund codes, go to Manulife's online price and performance tool.	To access ETF tickers, go to manulifeim.ca/etfs
Application	Client Name NN1565E, Nominee Name NN0907E	Client Name NN1565E, Nominee Name NN0907E	Client Name NN1565E, Nominee Name NN0907E	NN1570E	N/A

*TFSA is also available in the MPIP Segregated Pools contract. In order to open a TFSA in the MPIP Segregated Pools contract, a $250,000 householding minimum must be met. Money invested in a TFSA will count towards the $250,000 minimum.

14 Distributions will be reinvested. Distribution frequency varies by fund (monthly, quarterly, annually), as does distribution composition (interest, dividend, capital gains, and return of capital, etc.). A client can also choose to set up a systematic withdrawal plan (minimum $50 per fund).

15 While cumulative TFSA maximums don't yet meet the MPIP contract minimum, you may become eligible to hold TFSA within MPIP when householding minimums are met and fund/portfolio/contract minimums are reduced.

16 For GIF Select InvestmentPlus and MPIP Segregated Pools, the 2% fee may be applied on withdrawals within 90 days of a deposit.

Manulife Bank offers two TFSAs

	Tax-Free Advantage Account	Tax-Free GIC
Product summary	High-interest, fully liquid Tax-Free Savings Account	Long-term, interest-bearing investment
Tax status	TFSA	TFSA
Availability	Client name (off-book)	Client name (off-book)
Minimum deposit	None	$2,500
Interest structure	Variable rate, full rate paid on every dollar, no tiers	Annual compound interest paid at maturity
Liquidity	Fully liquid – no penalty for withdrawal	Can be redeemed prior to maturity, subject to market value adjustment and expense recovery fees
Deposit options	Deposit cheque by mail, RBC Royal Bank deposit slips via advisor, funds transfer, internet, and phone transfer	Cheque, local deposit via advisor
Deposit fees	None	None
Withdrawal options and fees	Official cheque, transfer to another bank account, transfer to other TFSA account of same account holder No withdrawal fees	Can be redeemed prior to maturity, subject to market value adjustment and expense recovery fees
Statements	Semi-annually	Deposit confirmation and renewal notice

Top 10 things to know about the Tax-Free Savings Account from Manulife

1 The TFSA has been available in Canada since January 1, 2009.

2 You can open a TFSA if you're 18 years of age and are a Canadian resident.

3 The TFSA lets you invest while not being taxed on interest or any investment earnings.

4 The annual contribution is currently $7,000 per year. Increases rounded to the nearest $500, will be applied as warranted by the consumer price index. The annual contribution limit was $5,000 in years 2009 to 2012, $5,500 for years 2013 and 2014, $10,000 in 2015, $5,500 in years 2016 to 2018, $6,000 in years 2019 to 2022, $6,500 in 2023, and $7,000 for 2024.

5 CRA will determine the amount you can contribute to your TFSA the following year. Any unused contribution room gets carried over to the next year.

6 If you make a withdrawal, the amount withdrawn will be added to the contribution room available for the following year.

7 You can have more than one TFSA, including TFSAs with other financial institutions. The important thing to remember is how much you've contributed in total, and make sure you don't exceed your contribution room.

8 Unlike an RRSP, you don't pay tax on any money you withdraw from the TFSA. Withdrawals also don't affect your ability to qualify for federal benefits such as the Canada child benefit or Old Age Security.

9 With Manulife Investment Management, you'll be able to invest in segregated fund contracts, GIAs[17], high-interest savings accounts, exchange traded funds (ETFs), and mutual funds. Manulife Bank offers the Tax-Free Advantage Account and Tax-Free GIC.

10 Money invested in a TFSA can't be deducted from your income on your tax return; only contributions to a RRSP qualify as a deduction.

[17] Manulife Investment Management GIAs are available in the GIF Select and Manulife Private Segregated Pools contracts.

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To find out more about TFSAs,
visit **manulifeim.ca**

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