MACKENZIE Investments | CONFIDENCE IN A CHANGING WORLD

Introduction to TFSAs

Tax-Free Savings Account (TFSA)

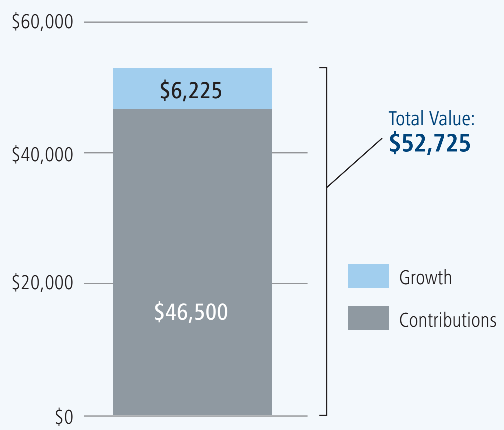
The Tax-Free Savings Account (TFSA) offers Canadians from all walks of life help in saving for their financial goals, both short- and long-term. The plan offers great flexibility; funds grow tax-free, can be withdrawn at any time on a tax-free basis, and can be used for any purpose.

How the TFSA works

- Canadian residents age 18 and over can save up to $5,500 a year in a TFSA
- Contributions are not tax deductible, but investment returns (capital gains, interest and dividends) earned in a TFSA are not taxed, even when withdrawn
- Withdrawals are tax-free and funds can be used for any purpose
- Unused contribution room can be carried forward indefinitely. As well, any amount withdrawn from a TFSA can be re-contributed in a future year without requiring new contribution room
- Neither income earned in a TFSA nor withdrawals will affect eligibility for federal tax credits or income-tested benefits such as the Canada Child Tax Benefit, Old Age Security (OAS) or the Guaranteed Income Supplement (GIS)
- Investments eligible for an RRSP can generally be held in a TFSA

Benefits of saving in a TFSA

Audrey has been contributing to a TFSA for 8 years. Over that period, she made contributions of $5,000 per year for 2009–2012, $5,500 for 2013–2014, $10,000 for 2015 and $5,500 for 2016 and realized a return of 3% each year. Details of her plan are as follows:



Audrey's son Barrett recently qualified to attend university and required $40,000 to fund his education and living costs. Audrey decided to help and redeemed $40,000 from her TFSA.

The following year, Audrey received an inheritance of $60,000 from her grandparents. Because withdrawals restore contribution room, Audrey was able to re-contribute the $40,000 the year following the withdrawal to her TFSA, sheltering most of the future growth on her inheritance from taxes. She also contributed an additional $5,500 for new contribution room received that year.

Is it better to contribute to a TFSA or an RRSP?

While the two savings plans have different features and benefits, they are designed to complement each other. As a Government of Canada brochure states, while an RRSP is primarily intended for retirement, "The TFSA is like an RRSP for everything else in your life."

Generally speaking, whether it is better to contribute to a TFSA or an RRSP depends on two variables – your tax rate when you contribute funds and your tax rate when you withdraw funds. If you expect to be in a lower tax bracket when funds are withdrawn, an RRSP is probably a better investment. If you expect to be in a higher tax bracket when money is withdrawn, a TFSA may be the better choice. However, each individual situation is unique and other factors may come into play (see **Mackenzie's RRSP or TFSA – Tax and Estate Report** for details). Talk to your financial advisor about creating a strategy that will work for you.

Who does the TFSA benefit?

- **Young people just starting out:** TFSAs will stimulate more savings when starting at a younger age
- **Seniors:** provides retired people with a means to save on a tax-free basis; neither withdrawals nor income earned in a TFSA will trigger clawbacks on Old Age Security benefits or the Guaranteed Income Supplement
- **High income earners:** taxpayers who have already made the maximum contribution to their RRSP will have another tax sheltered savings vehicle
- **Lower income earners:** taxpayers in a lower tax bracket may prefer to forgo the modest tax deduction of an RRSP in exchange for tax-free growth and withdrawals of a TFSA
- **Anyone saving for a large ticket item:** TFSAs can be used to fund a car purchase, vacation or down payment for a house
- In other words, just about **everyone**.

Examples of how to use a TFSA

1 Saving for a financial goal

Michael and Carol have both contributed to a TFSA for eight years; together they have accumulated $98,200. To pay for a home renovation, they each withdraw $40,000 from their TFSA, tax-free, for a total of $80,000. Subsequent to their withdrawls, TFSA contribution room of both Michael and Carol will increase by $40,000 and they will be able to recontribute this amount in a future year.

2 Senior over age 71

Brian Li is 72 years old, and can no longer contribute to an RRSP (after age 71, investors must convert their RRSPs to an annuity or RRIF and draw down a minimum amount of taxable income per year). Mr. Li has converted his RRSP to a RRIF and is withdrawing the mandatory minimum, although he doesn't require all of the income for living expenses. Each year, Mr. Li can contribute up to $5,500 of his RRIF withdrawal to a TFSA for continued growth and tax savings.

Talk to your financial advisor about how the Tax-Free Savings Account (TFSA) may fit into your financial plan.

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