



Guide to TFSA investing

The Tax-Free Savings Account (TFSA) is a useful and flexible account that should be part of every Canadian's investment strategy. This short guide will introduce you to the advantages of TFSAs, show you how they compare with RRSPs and provide ideas for getting started with your own self-directed TFSA portfolio.



Whether you are retired or nearing retirement, early or mid-career, married or single, a **Tax-Free Savings Account should probably have a place in your financial roadmap.**

While the name emphasizes savings, the TFSA is much more than a plain vanilla savings account. It's a useful and flexible investment account. It allows you to put money in a variety of eligible investments, and reap earnings from those investments tax free.

The federal government introduced the TFSA in 2009 to encourage Canadians to increase their rate of savings. It caught on quickly: by the end of the 2015 tax year, almost 13 million Canadians had opened a TFSA. By the end of 2022 that number had grown to over 16.1 million Canadians with TFSAs, representing savings of over \$428 billion.¹

¹Statistics Canada. [Tax-Free Savings Account statistics](#) (2020 tax year).

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TFSA rules and features

A TFSA is a tax-free savings account that provides tax benefits to the saver. Here are some important TFSA features you should be aware of.

Eligibility

Individuals with a valid Social Insurance Number who are 18 years of age or older and who live in Canada.

Tax treatment

Contributions must be made from after-tax income. However, earnings within the account are not taxable. And you don't pay tax when you withdraw your money either.

Annual contribution limit

The contribution limit is set by the Government of Canada and can change each year. For 2024, the annual limit is \$7,000.

Contribution room carry-forward

Unused contribution amounts can be carried forward and used in subsequent years.

Withdrawals

Withdraw funds from your TFSA any time. Amounts withdrawn in a given year are added back to your contribution room for the next year—regardless of whether the amounts withdrawn are your original contribution or the earnings from your investments.

Over-contribution penalty

There is a penalty if you accidentally contribute more than your allowable limit. In that case, a tax equal to 1% of the highest excess TFSA amount in the month will be applied.

How much contribution room do you have?

For a given year, your TFSA contribution room is the total of:

- your annual TFSA contribution limit
- any unused contribution room from the previous year
- any withdrawals made from your TFSA in the previous year

If you have multiple TFSAs, your combined contributions to all of them cannot exceed your available contribution room for the current year.

If you have never contributed to a tax free savings account, and you were at least 18 years old and had a valid social insurance number in 2009, then as of 2024 you have accumulated \$95,000 in contribution room.

How to check your TFSA contribution room

Canada Revenue Agency tracks your contribution room. You can see your TFSA balance as of January 1 of the current year by logging in to your online "My Account" on the [CRA website](#). Or you can get your balance by phoning CRA's Tax Information Phone Service: 1-800-267-6999. Check after mid-February, to allow time for your financial institution to report all your TFSA transactions from the previous year. Ideally, keep track of those transactions yourself to ensure you don't over-contribute.

TFSA advantages

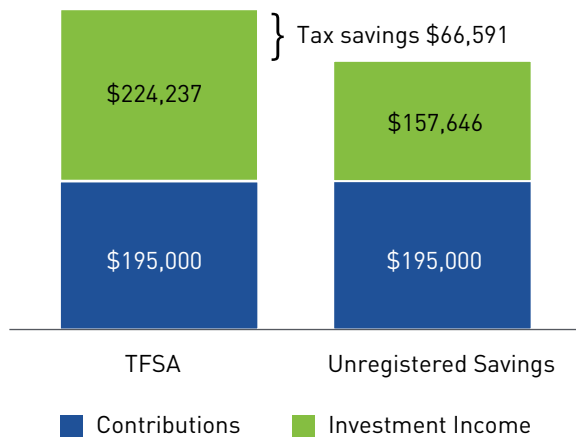
The TFSA is attractive to a wide range of Canadian investors in different circumstances because of these key advantages:

Tax-free earnings and withdrawals

Contributions must be made from after-tax dollars. But once contributed, your money is completely sheltered from Canadian tax. Income, dividends and capital gains accrue in the account tax free. And your withdrawals are not treated as taxable income. No other registered plan offers equivalent tax advantages.

Since earnings and withdrawals are not included as income for tax purposes, they don't impact your eligibility for Old Age Security, or for any other income-tested federal benefits.

TFSA vs unregistered savings



For illustrative purposes only. This chart shows results using a TFSA vs results using a taxable investing account. Based on investing \$650 per month, for 20 years, with a 5.5 per cent annual rate of return. For the unregistered savings, the assumed tax rate for a middle income investor is 21 per cent, based on earnings comprising 40 per cent interest, 30 per cent dividends and 30 per cent capital gains.

Source: Qtrade Direct Investing.

Boost your TFSA savings with an in-kind contribution

With ever-growing TFSA contribution room, anyone with investments in a nonregistered account may want to consider moving some of those assets to a TFSA, to take advantage of tax-free earnings. You can contribute securities that you hold in a non-registered account to your TFSA without having to sell the securities. However, you will be deemed to have disposed of those assets at their fair market value and there may be tax consequences. For example, if there is an unrealized capital gain on an asset being transferred, that gain will be taxable at the time of transfer. If there is an unrealized capital loss, that loss cannot be used to offset capital gains.

For more information, please visit the [Government of Canada website](#).

Equal eligibility

Every Canadian has the same contribution room. You don't need to have earned income in order to accumulate contribution room. So if you are retired or not currently working, you can still contribute to a TFSA.

Liquidity

TFSA rules allow you to withdraw funds whenever you want, for any purpose. This liquidity makes the TFSA an extremely useful general purpose account for a wide range of long- and short-term saving and investing goals. You can use a TFSA to grow your retirement nest egg or to save in order to start a business. You can also use a TFSA to build an emergency fund, or save for a major purchase such as a home, new car or vacation.

Be aware of rules for foreign investments

If you hold foreign dividend-paying stocks in your TFSA, that dividend income could be subject to foreign withholding tax. Because these taxes are withheld before the dividends are paid into your account, you might not even notice them. To avoid paying tax, many self-directed investors deliberately choose low- or non-dividend-paying foreign stocks for their TFSA, while holding U.S. dividend-paying stocks in their RRSP or RRIF. (There is no withholding tax deducted from dividends received on shares of U.S. corporations held in an RRSP or a RRIF, as per the tax treaty between the U.S. and Canada.)

U.S. dividends: The standard dividend withholding tax rate for stocks of U.S. corporations is 30 per cent, and this tax is not recoverable when paid from a TFSA. However, there is some relief: if you file a U.S. Internal Revenue Service Form W-8BEN with your brokerage, the rate is lowered to 15 per cent.

U.S. interest: The standard withholding tax rate for interest earned on U.S. bonds is also 30 per cent. However, as with U.S. dividends, the W-8BEN form for the U.S. Internal Revenue Service will reduce your rate. Completing the form with your brokerage will lower your withholding tax on interest down to 10 per cent.

Non U.S. foreign dividends: Tax rates vary, as do the terms of tax treaties Canada has with various countries. 15 per cent is typical, and the tax is not recoverable when paid from a TFSA.

No age limit on contributions

As long as you are an eligible Canadian resident, you can contribute every year to your TFSA for as long as you like. And you can maintain your TFSA for as long as you like—there is no requirement to withdraw assets or collapse your account by a certain age. This makes the TFSA a valuable complement to your RRSP or RRIF.

Investment choice

Investment choice is another key benefit of the TFSA. With a self-directed TFSA, you are in full control. You can hold a wide range of eligible investments, and create an asset mix that is appropriate for your objectives, timeline and tolerance for risk.

Eligible investments include:

- Stocks
- Exchange-traded funds (ETFs)
- Bonds
- Mutual funds
- Certain shares of small business corporations
- Guaranteed investment certificates (GICs)
- Cash

For more information about qualified investments, visit the [TFSA section](#) of the Canada Revenue Agency website.

TFSA compared to RRSP

It's important to understand how the TFSA differs from the Registered Retirement Savings Plan.

Both are great vehicles for saving and investing money to achieve your financial goals, and both can hold a wide range of investments.

The best way to leverage these two options depends on your particular objectives and priorities. To help equip yourself to make sound decisions for your self-directed accounts, consider the following points of comparison.

Comparing the rules

	TFSA	RRSP
Minimum age	You accrue contribution room starting in the year in which you turn 18. Depending on which province you live in, you can open a TFSA—which is a financial contract—at age 18 or 19.	No minimum age; but you must have reported income to CRA
Maximum age	No limit—maintain and contribute to your TFSA for as long as you live	You must close your RRSP by the end of the year in which you turn 71. (Most people convert their RRSP to a RRIF or purchase an annuity.)
Contribution limit for 2024	\$7,000	18% of 2023 income up to a maximum limit (this changes each year), less any company-sponsored pension plan contributions.
Carry forward unused contributions	Yes, indefinitely	Yes, but stops in the year in which you turn 71
Need earned income to contribute?	No	Yes
Re-contribute withdrawn funds	Yes	No
Tax treatment of contributions	Not deductible	Deductible
Tax treatment of earnings within the account	Tax free	Tax deferred (taxed when withdrawn)
Tax treatment of withdrawals	Tax free	Taxable income, for the year in which the funds are withdrawn
U.S. dividend income subject to withholding tax	Yes	No
Penalty for over-contribution	1% per month	1% per month but only if you exceed the \$2,000 lifetime overcontribution limit

Which is best for achieving your investing goals?

For some common saving and investing goals, here are some options to help you consider how a TFSA and/or an RRSP might be part of the solution for your situation.

TFSA	Goal	RRSP
<p>Savings are easily accessible. Withdrawals from your TFSA are tax free and can be recontributed later. Can be used in combination with the RRSP Home Buyers' Plan.</p>	 <p>Real estate purchase</p>	<p>Under the Home Buyers' Plan (HBP), if you are a first-time home buyer, you can borrow up to \$35,000 from your RRSP. If you have a spouse, you can each borrow up to \$35,000. The borrowed amount must be paid back within 15 years.</p>
<p>Can help provide additional funding for education for you or anyone else. You can gift withdrawals to your children, with no tax consequences, to supplement savings from a Registered Education Savings Plan.</p>	 <p>Going back to school</p>	<p>Under the Lifelong Learning Plan (LLP), you can borrow up to \$10,000 per year (up to a maximum \$20,000) from your RRSP to support your or your spouse's (but not your children's) qualifying full-time education program, based on specific criteria. The borrowed amount must be repaid within 10 years.</p>
<p>Ideal for saving for purchase goals, since withdrawals are tax free.</p>	 <p>Vacation or a big-ticket item</p>	<p>Since withdrawals are part of your taxable income, using RRSP assets for big-ticket purchases is not ideal.</p>
<p>Can be used to complement your funded RRSP and provide tax-free income.</p>	 <p>Getting ready for retirement</p>	<p>RRSPs are a popular retirement savings vehicle due to the preferential tax treatment and related account features.</p>
<p>TFSA earnings remain tax-free after your death. You can also name a beneficiary on your TFSA account(s) to ensure the money goes to them on your death.</p>	 <p>Leaving a legacy</p>	<p>An RRSP can be transferred easily to your spouse or to a qualified beneficiary with few tax implications.</p>

Retirement planning: Finding the right balance

As you formulate your plan for using your self-directed TFSA and RRSP to save and invest for retirement, here are three scenarios to consider:

You're in a low tax bracket, but expect to earn more in the future. If you direct savings to a TFSA now, you can save your RRSP contribution room to use later, when you're in a higher tax bracket. At that point, your RRSP contributions may generate a larger tax refund than they would now.

You have a generous pension plan, or for other reasons expect to enjoy a comfortable retirement lifestyle. Consider making it a priority to maximize your TFSA contributions. Your TFSA will provide tax-free income in retirement. By comparison, withdrawals from an RRSP (and from a Registered Retirement Income Fund) are taxable and, combined with other income sources, could push your taxable income high enough to trigger a clawback of your Old Age Security pension.

You believe your tax bracket in retirement will be lower than it is currently. RRSP contributions give you a tax break now, and your withdrawals in retirement may be taxed at a lower rate. Consider prioritizing your RRSP in order to minimize your income tax, and then if you are able, use your TFSA as a second source of savings.

Estate planning advantages

You have the ability to decide who gets the tax-free money from your TFSA when you die. It can be anyone—your spouse, your children, a friend, a registered charity. (Quebec is an exception; there, TFSAs must pass through the deceased person's estate.)

You can designate your spouse or common-law partner as your "successor holder," meaning they get to keep using your TFSA as if it were their own.

If you designate anyone else as a beneficiary, upon your death, the money will be de-registered, and will not remain tax sheltered. It will be placed in a non-registered account owned by your beneficiary, and they will only pay tax on amounts that exceed the fair market value of the assets in the TFSA at the time of your passing.

You should make sure that you designate a successor or beneficiary for each of your TFSAs. You can change those designations at any time. If you don't specify a successor or beneficiary, the money will become part of your estate, will be subject to probate fees and will not remain tax-sheltered. For the precise rules pertaining to TFSAs and estate planning, visit the [CRA website](#).

Asset allocation for your TFSA portfolio

Asset allocation is the foundation of any investing strategy, whether your portfolio is in a TFSA, other registered account, or a non-registered investing account. Asset allocation—the particular mix of stocks, bonds and cash-based investments in your portfolio—is widely considered to be the most important determinant of long-term investment performance. Most successful investors maintain a specific target weighting for each asset class, based on four key factors:

Basic investment objectives

- **Safety** will be your main objective if you are using your TFSA to save for an important expenditure in the near future.
- **Income** may be your primary objective if you are in a phase of life where you need your TFSA to help pay your living expenses.
- You are a **growth** investor if your primary objective is capital appreciation over time.
- Your objective may be a hybrid, for example safety/income, or income/growth.

An ideal emergency fund

The TFSA is an ideal account to use for an emergency fund, since you can take money out at any time, for any purpose, without losing the contribution room. If any unforeseen event takes a significant bite out of your monthly budget, you can top up your budget with funds from your TFSA, and put that money back in the TFSA in the next calendar year. For an emergency fund, you'll want to hold your savings in cash or safe, interest-bearing investments.

Time horizon

How much time is there between now and when you will need to access the funds held in your TFSA? The key consideration is that the potential impact of market volatility is greater in the short term than it is over the long term. With a shorter time horizon, safety is paramount. With a longer time horizon, you can choose more growth-oriented investments.

Tolerance for risk

Your tolerance for risk—whether aggressive, conservative, or somewhere in-between—determines how much growth potential you pursue with your investment portfolio. It's a fundamental principal that to earn a higher return, you have to be comfortable taking on more risk.

- **Stocks** have historically had higher risk but higher long-term returns than bonds or cash-based investments.
- **Bonds** are generally less volatile than stocks but offer more modest returns.
- **Cash** and cash equivalents, such as GICs and money market mutual funds, are the safest investments, but offer the lowest returns.

Level of involvement

If you have enough time and enjoy following the markets, researching companies and learning how to evaluate the quality of individual securities, then you can choose to build a TFSA portfolio of individual securities.

If you have less time, or simply prefer to spend your time on other pursuits, you can still maintain control of your self-directed TFSA portfolio by choosing ETFs, professionally managed mutual funds or complete portfolio solutions.

Getting started with a self-directed TFSA: Step-by-step guide

- Complete our [online application](#) from your desktop or mobile device.
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- Start investing!

Transfer to Qtrade

If you want to move existing TFSA assets from another broker to Qtrade Direct Investing, Qtrade will pay you up to \$150 to cover any transfer-out fees. For terms and conditions of that offer, and for help with your transfer, visit our [Account Transfer](#) page.

Further reading

For more TFSA-related topics, visit the [TFSA section](#) of the Canada Revenue Agency website.

Help your spouse build their TFSA

A higher-earning spouse or common-law partner can give money to a lower-earning or stay-at-home spouse to contribute to his or her TFSA, up to the spouse's available contribution limit. The money will not be subject to the CRA's income attribution rules. Each spouse owns his or her individual TFSA, along with any income and capital gains generated within the account.

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