# Key Reasons To Invest In a TFSA

## Did you know?

If you choose to leave Canada and become a resident in another country, you can continue to hold your Tax-Free Savings Account. However you won't be allowed to make further contributions, and your new country of residence may apply its own taxes on your TFSA.

Just seven years after it was launched, the Tax-Free Savings Account (TFSA) has emerged as a leading investment channel among Canadians. According to the latest figures from the country's Department of Finance, more than 10.7 millon[1] Canadians – accounting for about 42 percent[1] of adult tax filers – have TFSAs.

It's easy to see the appeal of a TFSA. Designed as a general-purpose account, this registered savings and investment vehicle allows TFSA owners to earn tax-free investment income, including interest, dividends and capital gains. Unlike an RRSP, a TFSA does not create tax deductions when contributions are made, but provides the ability to make withdrawals at any time without incurring a tax liability.

### TFSA 101

All Canadian residents aged 18 and older with a social insurance number are eligible for a TFSA. The annual contribution limit for 2016 is $5,500, which was rolled back from $10,000 in 2015. In 2016, the cumulative contribution limit stands at $46,500[2]. In addition to tax-free growth and withdrawals, a TFSA offers a number of other advantages, including:

- A broad range of investment options, including stocks, bonds, mutual funds, exchange-traded funds, guaranteed investment certificates, and savings deposits.
- The opportunity to carry forward unused contribution room to future years, similar to an RRSP.
- The ability to reinvest withdrawn funds without affecting the contribution limit, as long as the funds are returned to the TFSA no earlier than January 1 of the following year.
- The ability to provide funds to a spouse or partner for them to invest in their TFSA.
- The opportunity to continue investing past the age of 71, when Canadians are required to convert their RRSP into a retirement income account.
- No disruption of other benefits and credits, such as the Canada Child Tax Benefit, GST/HST Credit, or Old Age Security.


## Five reasons to invest in a TFSA

Most Canadians stand to benefit from a TFSA, whether they're low-income earners looking to kickstart their savings or high net worth individuals who want to enhance their investment strategy. If you're unsure whether or not a Tax-Free Savings Account is right for you, consider these reasons to invest in a TFSA.

### 1 You want to invest beyond your RRSP limit

RRSP contributions are set at 18 per cent of earned income, up to a maximum amount defined each year by Canada Revenue Agency. If you've used up all your RRSP contribution room and have additional funds to invest, a TFSA provides another channel where you can grow your money tax-free.

### 2 You don't have earned income

If you draw all of your income from a pension, dividends or capital gains, then you don't have earned income that qualifies you for RRSP contributions. With a TFSA, any Canadian resident aged 18 or older and who has a social insurance number, can invest money regardless of their source of income.

### 3 Your RRIF income is more than you need

If the mandatory minimum withdrawals from your registered retirement income fund exceed your total living expenses, consider putting the extra funds into a TFSA. There's no maximum age limit for TFSA contributions, so you can continue enjoying tax-free growth on your investments even after you retire

### 4 You're facing low income in retirement

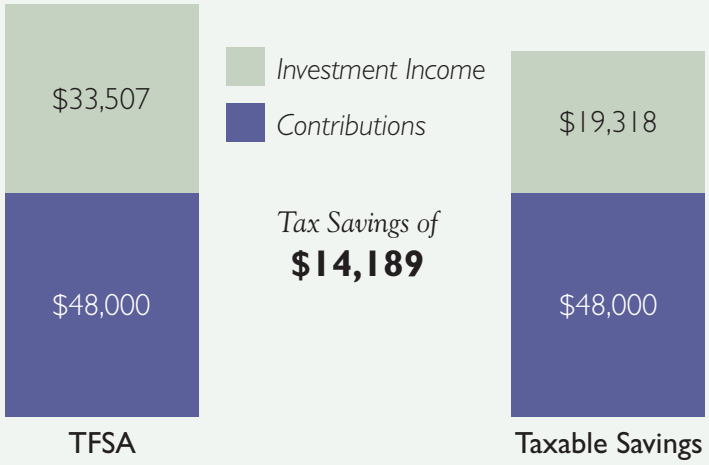
Your RRIF income can affect your eligibility for government benefits such as the Guaranteed Income Supplement and the age amount tax credit, which are designed to help low-income retirees. By comparison, money withdrawn from a TFSA does not count as income and won't cause you to lose out on these income-tested benefits.

### 5 You're saving for a purchase or a rainy day

The ability to earn investment income tax-free and withdraw funds without triggering a tax bill makes a TFSA an ideal vehicle if you're saving for a purchase such as a home renovation, a car or vacation, or want to build an emergency fund. Keep in mind that any amount you take out of your TFSA gets added automatically to your contribution room the following January, allowing you to reinvest the money you withdrew the next year or later.

## THE TFSA TAX ADVANTAGE: CRUNCHING THE NUMBERS

The TFSA's no-tax rule on investment income and withdrawals can add up to significantly more cash in investors' pockets compared to non-registered investments. The table below illustrates how tax savings from a TFSA can result in a higher total investment income.




**Example for illustrative purposes only:** *An investment of $200 per month for 20 years will grow to $81,507* which is $14,189 more in a TFSA, vs. the same investment in a regular, taxable account.*

**Assumes a 5.0% rate of return, and 35% Marginal Tax Rate.*

Source: IPC Investor Education Centre; ipcc.ca

Speak to your IPC Advisor today about how TFSAs can fit into your financial plan.

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*References:*
*1) Canada Revenue Agency: Tax Free Saving Account 2015 Statistics (2013 contribution year)*
*2) TFSA contribution limits: www.cra-arc.gc.ca/tx/rgstrd/papspapar-fefespfer/lmts-eng.html*