



## Tax-Free Savings Account (TFSA)



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## What is a TFSA?

The Tax-Free Savings Account (TFSA) was introduced in 2009 by the federal government to allow individuals to save money tax-free for any savings goal throughout their lifetime. The amount that can be contributed to a TFSA is limited each year.

### Benefits

- Savings grow tax-free.
- Withdrawals are not taxable.
- Flexibility to withdraw funds when needed, subject to the terms of the investment.
- Help save for any goals – long-term or short-term, big or small.
- Eligible individuals accumulate contribution room annually, regardless of their income level.

### Who is eligible to contribute to a TFSA?

In order to contribute to a TFSA, individuals must be:

- a resident of Canada for income tax purposes;
- age 18 or older; and
- have a valid social insurance number.

Where the provincial age of majority is 19, individuals cannot open a contract until they reach the age of majority. Individuals accumulate TFSA contribution room for the year they attain age 18 and carry it forward to the following year. Once they attain age 19, they can open a TFSA and make a contribution.

There is no maximum age restriction for TFSA.

Unlike a Registered Retirement Savings Plan (RRSP), an individual does not have to earn income and file a tax return to be eligible to contribute to a TFSA. The maximum amount that can be contributed to a TFSA is limited to the TFSA contribution room.

## Contribution guidelines

Contributions are not tax deductible. The contribution deadline for each calendar year is December 31.

### Limits

- TFSA contribution room starts in 2009, or in the year an individual turns 18 (if after 2009), accumulating every year after that year.
- Annual TFSA dollar limit is determined based on the guidelines set by the *Income Tax Act*.
- If an individual contributes less than their available TFSA contribution room in a given year, the unused portion is carried forward, adding to their contribution room for subsequent years.
  - For example, Bill turned 18 in 2025 but did not open a TFSA until 2026. His contribution limit was \$7,000 in both 2025 and 2026. Because the unused contribution room from 2025 carries forward, Bill's total contribution limit in 2026 is \$14,000.
    - $\$7,000 \text{ (2025 unused contribution room)} + \$7,000 \text{ (2026 dollar limit)} = \$14,000$ .
- Earnings and changes in the value of investments do not affect contribution room.
- Individuals can obtain contribution room information by accessing their CRA account or by calling the CRA at 1-800-959-8281.

The following chart summarizes the annual limit, as determined by the Canada Revenue Agency (CRA):

Year	Dollar limit
2009	\$5,000
2010	\$5,000
2011	\$5,000
2012	\$5,000
2013	\$5,500
2014	\$5,500
2015	\$10,000
2016	\$5,500
2017	\$5,500
2018	\$5,500
2019	\$6,000
2020	\$6,000
2021	\$6,000
2022	\$6,000
2023	\$6,500
2024	\$7,000
2025	\$7,000
2026	\$7,000
Total	\$109,000



## Withdrawals increase unused contribution room

A TFSA withdrawal of contributions and/or income will increase the unused contribution room for the year after the year of withdrawal. Withdrawals do not affect contribution room for the current year.

For example, Bill opens a TFSA contract in January 2026 and contributes his maximum amount of \$14,000. In February, Bill withdraws \$2,000. In 2027, the \$2,000 will be added to his contribution limit.

### Excess contributions

A holder has an excess TFSA amount if, at any time during a calendar year, the total of all contributions to all of the holder's TFSAs exceed their TFSA contribution room for the year.

The CRA will apply a penalty of 1% on the highest excess amount per month until it is withdrawn or absorbed by new contribution room in subsequent years.

The withdrawal of the excess amount will not increase the TFSA contribution room.

### Contributions by non-resident

Where a holder is a non-resident of Canada for tax purposes and makes a contribution, the ineligible contribution is subject to a 1% per month penalty tax. The holder remains subject to the penalty tax until the contribution is withdrawn or the holder becomes a resident of Canada.

## Transfers

Amounts held in a TFSA can be transferred from one TFSA to another for the same holder.

Amounts held in a TFSA may be transferred directly from one holder's TFSA to the former spouse/common-law partner's TFSA in the event of a relationship breakdown, as required by a decree, order, judgment of a court, or under a written separation agreement.

Transfers will not affect the holder's contribution room.

## Withdrawals

### Cash withdrawals

Cash withdrawals from a TFSA will not be subject to withholding tax and no tax slips are issued. Withdrawals will increase contribution room for the following year.

### Withdrawals by non-resident

Withdrawals by a non-resident are not subject to withholding tax and no tax slips are issued. Such withdrawals will increase contribution room for the following year, but will only be available if the holder becomes a resident of Canada.

## Holder becomes a non-resident

The TFSA may remain open if the holder becomes a non-resident. However, the holder is not eligible to make contributions, and their contribution room does not accrue while the holder is a non-resident. Ineligible contributions are subject to 1% per month penalty tax.

## Appointment of successor holder or designation of beneficiary

The holder under a TFSA may have the TFSA continue in the name of their spouse/common-law partner after their death by completing an appointment of successor holder on the TFSA contract. The TFSA will be subject to the same terms and conditions of the TFSA contract prior to the original holder's death.

Where the holder does not appoint a successor holder, they may designate one or more beneficiaries to receive the TFSA proceeds on death.

If no successor holder is appointed or no beneficiary is designated on the TFSA contract, funds are paid to the deceased holder's estate.

Note: Appointment of successor holder and beneficiary designations are not available to residents of Quebec.

## Death of the holder

If a successor holder has been appointed, income earned after death remains tax-sheltered in the TFSA. If a successor holder has not been appointed, income earned after death is taxable to the beneficiary(s) or to the estate if no beneficiary has been designated.

Where the spouse/common-law partner (CLP) was not appointed a successor holder but receives all or part of the TFSA funds, the spouse/CLP may contribute funds to their own TFSA and designate the same as an exempt contribution. This exempt contribution does not affect the spouse/CLP's TFSA contribution room.

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