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### What is a TFSA (Tax-Free Savings Account)?

A Tax-Free Savings Account (TFSA) is a registered tax-advantaged savings account that can help you earn money, tax-free.

You can think of a TFSA like a basket, where you can hold qualified investments, that may generate interest, capital gains, and dividends, tax-free.

Whether you're saving for your dream wedding, a rainy day, your first home, or an extended vacation, a TFSA can help you reach your goals sooner. To get you started, we break down: what is a TFSA, how it works, and how it can benefit your savings plan.

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#### When did Tax-Free-Savings Accounts become available?

The TFSA was introduced in 2009 by the Government of Canada as an incentive for eligible Canadians to save.

#### How does a TFSA work?

You can hold qualified investments like cash, stocks, bonds, mutual funds in a TFSA and can withdraw contributions as well as the interest, capital gains, and dividends earned in the account at any time<sup>1</sup>, without paying taxes (or reporting the withdrawals as income when you file your taxes).

Each year, the Government of Canada determines the maximum amount a holder of a TFSA can contribute to it in that year. This limit is known as the contribution limit. The contribution room begins to accumulate every year, if any time beginning in the calendar year a Canadian resident is 18 years and older. If you don't contribute up to the contribution limit for a given year, this amount is carried forward and is added on to your contribution room for future years.

Learn more about contribution limits and withdrawal rules.

#### Who is eligible for a TFSA?

TFSAs are available to every Canadian resident, who is 18 years of age or older with a valid Social Insurance Number (SIN). To open a TFSA with TD, you must be of the age of majority in your province of residence.

#### Eligibility for non-residents of Canada

If you become a non-resident of Canada for tax purposes after opening a TFSA, you can keep your TFSA and

will not be taxed in Canada on any earnings in the account or on withdrawals from it.

However, if you make a contribution while you are a non-resident, except certain exceptions, you will be subject to a 1% tax for each month the contribution remains in the account. You may also be liable for other taxes. Further, TFSA contribution room will not accumulate for any year during which you are a non-resident of Canada throughout the entire year.

#### What are the benefits of opening a TFSA?

There are many benefits of using a TFSA to save:

- **Added flexibility.** A TFSA is a savings solution that offers you the flexibility to save for a multitude of short-term and long-term goals. It can help you reach your saving goals, and you can withdraw your money when you need it <sup>2</sup>.
- Tax-free growth. You pay no tax on any investment income you may earn in your TFSA and you can hold a variety of qualified investments, including cash, stocks, guaranteed investment certificates and mutual funds. The higher the return potential on your investments, the faster your savings may grow, tax-free.
- Retirement planning. A TFSA can complement your personal RRSP by providing additional tax-advantaged savings when you have no more RRSP contribution room or you are over age 71 and not allowed to hold an RRSP anymore. By contributing to a TFSA, any income earned in the account is tax-free, even when withdrawn.
- **Making Withdrawals.** You can withdraw funds from the TFSA without paying tax. This can make the TFSA a great tool to save for big-ticket items. When you're ready to use your funds, you can withdraw without paying tax. This gives you more money for the things you care about.

#### What are my TFSA investment options?

You can hold a variety of qualified investments in your TFSA – with common investment types being:

- Cash
- Mutual funds
- GICs
- Stocks

Bonds

Each investment type can differ in its advantages and disadvantages based on your savings goals. Consulting with a TD Personal Banker can help you assess which investment option may be best for you, given the level of risk you're willing to take.

A TD Personal Banker can also can provide you with more details on eligible investments offered by TD for your TFSA.

For more on TFSA investment rules, learn more.

## How is a TFSA different from an RRSP?

TFSAs and RRSPs offer tax advantages that can help you achieve your saving and investing goals. In choosing one over the other, it's important to understand the **differences and the benefits** of each type of registered plan.

An RRSP is designed specifically to provide you with income after you retire. Your annual contribution limit is based on your prior year income, subject to certain adjustments and an annual maximum limit. Information on your contribution limit can be found on your prior year notice of assessment. The contributions you make are tax-deductible; withdrawals, on the other hand, are subject to taxation.

A TFSA is not designed specifically for retirement and can help you save money for a wide range of goals. The amount you can contribute is not based on your income and your contributions are not tax-deductible. You can withdraw your money any time you want it<sup>1</sup>, and you don't pay tax on those withdrawals. You are also able to recontribute amounts withdrawn from your TFSA the following year or subsequent years without impacting your contribution room in those years.

Learn more about the differences between an RRSP and TFSA and how to decide between the two.

# How much can I save with a TFSA?

A TFSA means you won't be taxed on any of the growth or income earned within the account. Which means your savings can grow even more. Want to know by how much? Use our TFSA Calculator to **calculate now**.

## How can I open a TFSA at TD?

See what types of TFSAs TD offers and start growing your money tax-free. **Get started**.

For more information on how investing in a TFSA can help you reach your savings goals, **book an appointment** and visit a branch at a time that's convenient for you.

Already have an EasyWeb account? **Apply online** and fill out an online application if you already have a TD Canada Trust chequing or savings account

## Share this article







## Ready to get started?

Explore your TD Canada Trust TFSA options.

View details

<sup>1</sup> Subject to any restrictions in the investments chosen.

The above information about the Tax-Free Savings Account is based on the information currently available from the Canadian government.

To logra more or to check for undated visit the TESA information page on the Canada Pavanua Agency website.

To learn more or to check for updates, visit the TFSA information page on the **Canada Revenue Agency** website.

Date Published: April 2019

Date Modified: November 2020

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