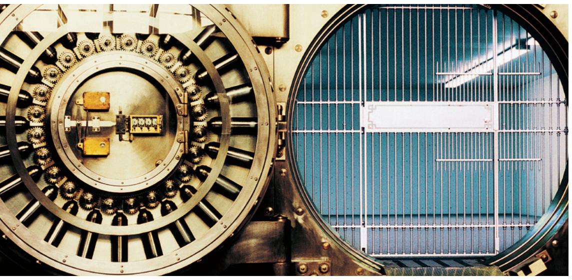

# Take advantage of a TFSA

**Craig Fehr, CFA** ▪ Canadian Market Strategist

A Tax-Free Savings Account (TFSA) is a flexible way to save for many financial goals. The TFSA was first introduced in 2009 and gives you a way to grow your investments tax free over time, while saving toward a home purchase, new vehicle, emergency fund, retirement or other goals.

## TFSA advantages

A TFSA is frequently called "a Registered Retirement Savings Plan (RRSP) for everything else beyond retirement." Every Canadian resident 18 years[1] or older can open a TFSA. You can contribute $6,000 to your TFSA in 2021, as well as potentially any unused contribution room. The TFSA offers some advantages to the RRSP, depending on your situation. Unlike an RRSP, you can access the money in your TFSA with no tax consequences for any reason, and the amounts withdrawn are added back to your contribution limit amount in the following year.

## The TFSA may be useful if:

**You are a younger investor.** If you are currently in a low tax bracket and expect to be in a higher bracket in the future, contributing to a TFSA may be best for you. RRSPs offer tax savings if your income is in a higher tax bracket when you contribute to the plan and in a lower bracket when you withdraw. By contributing to a TFSA while in a low tax bracket, your investments grow tax free. When your tax rate is higher, you can withdraw funds from your TFSA to contribute to an RRSP and reduce more of your future taxes. Also, you are able to reclaim the amount you withdraw toward your TFSA annual contribution limit in the following year.

**You are an established saver.** If you have limited contribution room or have maximized your annual RRSP contributions and are looking for ways to save more for retirement, a TFSA can help complement your retirement plan. In addition, you can give your spouse money that he or she can then use to contribute to a TFSA without affecting your TFSA contribution room or attracting income attribution.

**You are transitioning to retirement.** The TFSA can offer you tax-free income during retirement, which may help diversify your income stream. You can hold accounts with differing tax treatments in order to help smooth out your tax liabilities.

**You are retired.** Unlike with an RRSP, there is no requirement to close your TFSA at age 71. In addition, you can continue to contribute to a TFSA even though you may no longer be eligible to make RRSP contributions. If you are required to withdraw more income than you need from your Registered Retirement Income Fund (RRIF)[2] or pensions, you can use the TFSA to grow your savings tax free. Consider transferring these excess funds to your TFSA, up to your allowable limit, to continue to grow and generate future tax-free income.

 

**You are interested in preserving your financial legacy.**
The TFSA allows you to directly name a beneficiary. Upon your death, your TFSA assets can pass directly to your beneficiary tax free and also avoid probate. As always, please consult your tax professional or estate-planning lawyer and your Edward Jones advisor.

## Investments in your TFSA

Within your TFSA, you can own any investments that are eligible to be held in a registered account. We recommend that you base your mix of investments on the following:

- Your risk tolerance
- Any assets you hold in other accounts
- Your time horizon
- Liquidity needs

Given the ability to take advantage of tax-free growth, the longer you're able to leave your investments in your TFSA, the greater the potential benefit. If you anticipate needing the money in the next few years or are unwilling to endure fluctuations in your portfolio, Guaranteed Investment Certificates (GICs) may be appropriate. But keep in mind these securities may offer low rates of return and typically can't be sold prior to their maturity.

If you're using your TFSA to save for medium-to-long-term financial goals, we recommend considering a diversified mix of investments that may offer the benefit of greater growth potential and steadier income, and better utilize the tax advantages. These may include:

- Fixed income – Interest income can be taxed at higher rates, which makes owning bonds in a TFSA even more attractive. Individual bonds and fixed-income mutual funds offer the potential for better price stability as well as investment income. We recommend a balanced mix of bonds across the maturity spectrum.

- Foreign stocks not eligible for favourable dividend treatment – Foreign dividend income is subject to higher taxes, and even though foreign withholding may apply, we believe you should own international dividend-paying equities that aren't eligible for dividend treatment within your TFSA.

The length of time you plan to keep your money invested should play an important role in how you invest your TFSA. Generally, we believe you can achieve the greatest benefit by holding your assets over a longer period of time and by owning investments that take the most advantage of the tax-free treatment. Be sure to consult your tax professional to address your personal tax situation. Your Edward Jones advisor can discuss your investment options to ensure they align with your financial goals.

### Weighing your savings options

Tax-advantaged accounts, such as the RRSP, Registered Education Savings Plan (RESP) and TFSA, provide different advantages, and you should consider the most effective combination of account options to fit your needs. For example, if you have unused RRSP contribution room, consider making your RRSP contribution before you contribute to a TFSA. You receive a tax deduction for your RRSP contribution, and you may be able to use the refund to contribute to the TFSA.

Do you expect to be in a lower tax bracket in the future, such as during retirement? If so, the RRSP may be a better choice for your money, since the deduction you'd receive from your contribution would be higher than the tax rate you would expect to pay in the future. Although no one can predict future tax rates, it still may make sense to consider adding a TFSA to your portfolio.

 

## TFSA opportunities

We think most Canadians should consider making a $6,000 per year contribution to a TFSA each year because it's a flexible way to invest tax free to fund any short-, medium- or long-term needs and complement a retirement strategy. The ability to withdraw money and recover the contribution room is a significant advantage for most investors. Remember to evaluate your expected tax rate and consider other long-term savings accounts along with your TFSA.

While the TFSA provides flexibility, it may not be appropriate for everyone. Other savings options may carry benefits and features that may better suit your situation. That's why it's important to discuss your options with your Edward Jones advisor.

1 Edward Jones TFSA applicants must be of the age of majority in the province of their residence to open a TFSA.

2 Also includes Life Income Fund (LIF), Locked-in Retirement Income Fund (LRIF) and Prescribed RIF (PRIF).

Edward Jones, its employees and Edward Jones advisors do not provide tax or legal advice. Review your specific situation with your tax advisor, estate-planning lawyer and/or legal professional for information regarding, or issues concerning, the tax implications of making a particular investment or taking any other action.

Diversification does not guarantee a profit or protect against loss.

Dividends may be increased, decreased or eliminated at any point without notice.

Bonds may be subject to certain risks, including interest rate risk, credit risk, reinvestment risk, market risk and currency risk. The values of bonds fluctuate, and you may lose some, or all of your principal.

 