TAX-FREE SAVINGS ACCOUNT – THE FACTS

Everything you need to know about Tax-Free Savings Accounts (TFSAs)

Tax, Retirement & Estate Planning Services

Manulife

Until 2009, many Canadians held their savings in Registered Retirement Savings Plans (RRSPs), where they could claim a deduction for their contributions and then defer tax on withdrawals until retirement. In 2009, the TFSA became available to Canadians.

Whether you are saving for the short term (0–5 years) or for the longer term (6 years and beyond) a TFSA can be a valuable addition to your financial plan. When used to its full advantage, a TFSA can be a powerful tool to save money in a tax-free environment.

Manulife Investments has written this booklet to provide you with information you'll need to make the most of your savings. The booklet describes the technical details of TFSAs and offers some tips on how to maximize the tax-free investing available with these plans.

WHAT IS A TFSA?

A TFSA is a flexible, general purpose savings vehicle that allows you to make contributions each year and to withdraw funds at any time in the future. A TFSA provides you with a powerful incentive to save by allowing the investment growth to accumulate and be withdrawn tax free. However, unlike an RRSP, you cannot claim a tax deduction for contributions you make to a TFSA and your withdrawals are added back to your unused contribution room for the following year.

You can open a TFSA at most financial institutions, including banks, trust companies, credit unions, life insurance companies, caisse populaires, mutual fund and brokerage firms. A TFSA may invest in a wide range of qualified investments such as stocks, bonds, and other popular portfolios including mutual funds, segregated fund contracts and GICs.[1]

Once you contribute funds into a TFSA, any growth or income earned on the underlying investment will not be taxed nor will it be taken into account for the purposes of determining your eligibility for federal income-tested benefits and credits such as Old Age Security (OAS), the Guaranteed Income Supplement (GIS), the Canada Child Tax Benefit, the Employment Insurance benefits, the Goods and Services Tax Credit and the Age Credit.

There is no restriction on how withdrawals can be used. Withdrawals may be made for personal reasons, investment, education or any other purpose.

[1] Includes guaranteed interest contracts offered by an insurance company and guaranteed investment certificates offered by a bank.

WHY SHOULD I CONTRIBUTE TO A TFSA?

Taxation of the investment growth can have a very unfavorable effect on your savings. For example, a seven per cent rate of return on an investment may sound good, but if the return is fully taxable at a 45 per cent marginal tax rate, you've actually only earned 3.85 per cent.

Let's compare 3 examples. Each scenario assumes you have $5,000 of pre-tax money available to invest at the beginning of each year, your annual rate of return is seven per cent and your effective tax rate is 40 per cent. In the first scenario, $3,000 of after-taxmoney is contributed to your TFSA and would accumulate to $44,350 after 10 years. The second scenario assumes you will save the $3,000 after-tax money outside a TFSA, in a non-registered account, where the return is taxed in equal amounts as interest, dividends and capital gains. Since this investment does not grow tax free or cannot be withdrawn tax free, you would accumulate $41,020.

In the third scenario, you contribute to an RRSP, and since the contribution is tax deductible, you could contribute $5,000 (provided you had sufficient earned income).[2] After 10 years you would have accumulated $73,920 but if you withdrew the entire amount in that year, you would have $44,350 after paying taxes, an identical result as the TFSA numbers.

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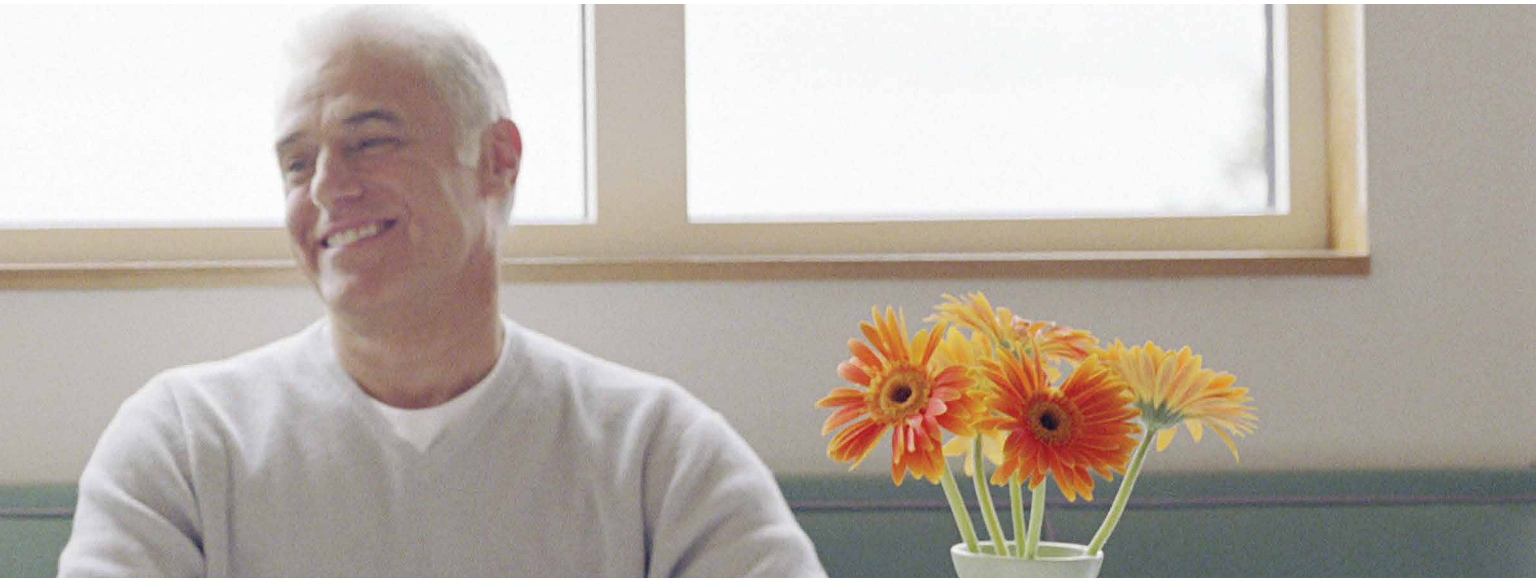
	TFSA ($)	Non-registered ($)	RRSP ($)
Pre-tax income	5,000	5,000	5,000
Tax @ 40%	2,000	2,000	–
Net contribution	3,000	3,000	5,000
Net investment income 10 years @ 7%	14,350	13,140[3]	23,920
Value	44,350	43,140	73,920
Tax if withdrawn	–	2,120[4]	29,570
Net proceeds	44,350	41,020	44,350

For illustration purposes only.

[2] See RRSPs – The Facts, MK1730 for more information on RRSPs.

[3] Assumes 25 per cent of investment income is taxed annually at 28 per cent and paid from the account.

[4] Capital gains tax at 20 per cent (Adjusted Cost Base is $32,540).



SHOULD I CONTRIBUTE TO A TFSA OR AN RRSP?

In general, RRSP savings will generate a net rate of return higher than the TFSA when the effective tax rate at the time of withdrawal is lower than the effective tax rate at the time of contribution. The TFSA will provide a higher return if the reverse occurs.

Whether to save in a TFSA or an RRSP or both will depend on your savings needs as well as your current and expected future financial situation and income level. In addition, the impact of income tested benefits and credits and the flexibility to recontribute TFSA withdrawals will have to be taken into consideration.

Generally, an RRSP is used for saving for retirement, while a TFSA would be used for both saving for retirement and other shorter term purchases. Because TFSA withdrawals are added back to your available TFSA contribution room in the year following the year of withdrawal, there is very little downside to using the assets for mid to large purchases.

If you are in a low tax bracket it will probably be better to save in a TFSA since there is no impact on federal income-tested benefits such as child tax benefits, OAS or GIS when the money is withdrawn. However, if you are in a higher tax bracket, you will probably consider using both types of plans, the RRSP with the higher tax deductible limits for retirement planning and the TFSA for supplementary savings. Your advisor will be able to assist you in determining what is best in your situation.

HOW MUCH CAN I CONTRIBUTE?

Starting in 2009, all Canadian residents who are 18 years of age or older, can contribute a legislative dollar maximum[5] per year. If you do not contribute or do not contribute the full amount, the unused amount will carry forward to the next year. Unused contribution room can be carried forward indefinitely. For example, if you had unused contribution room of $10,000 at the end of 2016, you would be able to contribute up to $15,500 in 2017.

Also if you withdraw money from your account, the amount will reinstate your TFSA room in the next calendar year. You cannot contribute more than your TFSA contribution room in a given year, even if you make withdrawals from the account during the year. If you do so, you will be subject to a penalty tax for each month you are in an excess contribution position.

For example, if you made the maximum contribution each year through 2016 and you withdrew $11,000 in 2016 you could not make further contributions in 2016. For 2017, your contribution limit would be the regular $5,500 plus the $11,000 you had withdrawn in the previous year for a total of $16,500.

Based on information supplied by the various financial institutions issuing TFSAs, the Canada Revenue Agency (CRA) will track your available TFSA contribution room. You can access this information through the 'My Account' function on the CRA web site at www.cra.gc.ca/myaccount

[5] The annual contribution limit is currently $5,500 per year. Increases rounded to the nearest $500, will be applied as warranted by the consumer price index. The annual contribution limit was $5,000 for years 2009 through 2012, $5,500 for years 2013 and 2014, $10,000 for 2015 and $5,500 for 2016.

CAN I CONTRIBUTE TO MY SPOUSE'S TFSA?

Provided your spouse[6] is a Canadian resident who is at least 18 years of age and has available TFSA contribution room, you can transfer property or funds to your spouse to contribute up to that amount to a TFSA that is in your spouse's name without any tax consequences or income attribution. Unlike a spousal RRSP, the amount that can be contributed is based on the spouse's TFSA contribution room and can only be made by your spouse, the holder of the account. You cannot hold a TFSA jointly with your spouse. A TFSA must be held individually.

CAN I SET UP A TFSA FOR MY CHILDREN?

As with a contribution to your spouse's TFSA, you could transfer property or funds to an adult child to contribute to a TFSA set up in your child's name provided they have available TFSA contribution room. Your child would then make a contribution directly to his/her own TFSA.

WHAT IF I CONTRIBUTE TOO MUCH?

The Income Tax Act imposes a penalty of one per cent per month on the highest excess contribution amount at any time during the month.[7] This is unlike RRSPs, where a penalty on excess contributions is imposed on the excess amount at the end of the month. Generally, if you contribute more than your accumulated unused TFSA room in any given year, or withdraw an amount from your TFSA and recontribute it before the next year and don't have the necessary TFSA room to make the contribution, you may be subject to the one per cent penalty per month on the highest excess amount for every month the excess was in the plan. The excess amount can be withdrawn to eliminate the penalty tax for subsequent months

> If you withdraw money from your account, the amount will reinstate your TFSA room in the next calendar year.

CAN I BORROW TO MAKE A CONTRIBUTION?

Yes you can borrow to make a contribution and the TFSA can be assigned as collateral for a loan.[8] However, the interest you pay on the loan is not tax deductible.

CAN I HAVE MORE THAN ONE PLAN?

You can have as many TFSAs as you wish as long as the total amount of contributions made does not exceed your unused contribution room for that year. You may prefer to have separate plans to take advantage of different investment options or financial institutions. The disadvantage of having more than one plan is that you may spend more time tracking the various plans and you may pay more in administration fees. Similar to RRSPs, these fees cannot be claimed as a tax deduction.

CAN I TRANSFER BETWEEN TFSAs OR TO A NEW TFSA?

You can transfer from one plan to another plan that is in your name provided the funds go directly to the new plan without having been paid to you first. If the funds are paid to you first, it will be considered a withdrawal and your TFSA room for the withdrawn amount will not be reinstated until the next year. This could result in a penalty situation. See section titled "What if I contribute too much?"

WHAT HAPPENS TO MY TFSA WHEN I DIE?

Generally, the value of the TFSA at the date of death can be paid out tax free. The amount will be paid to your named beneficiary, if applicable, otherwise to your estate.

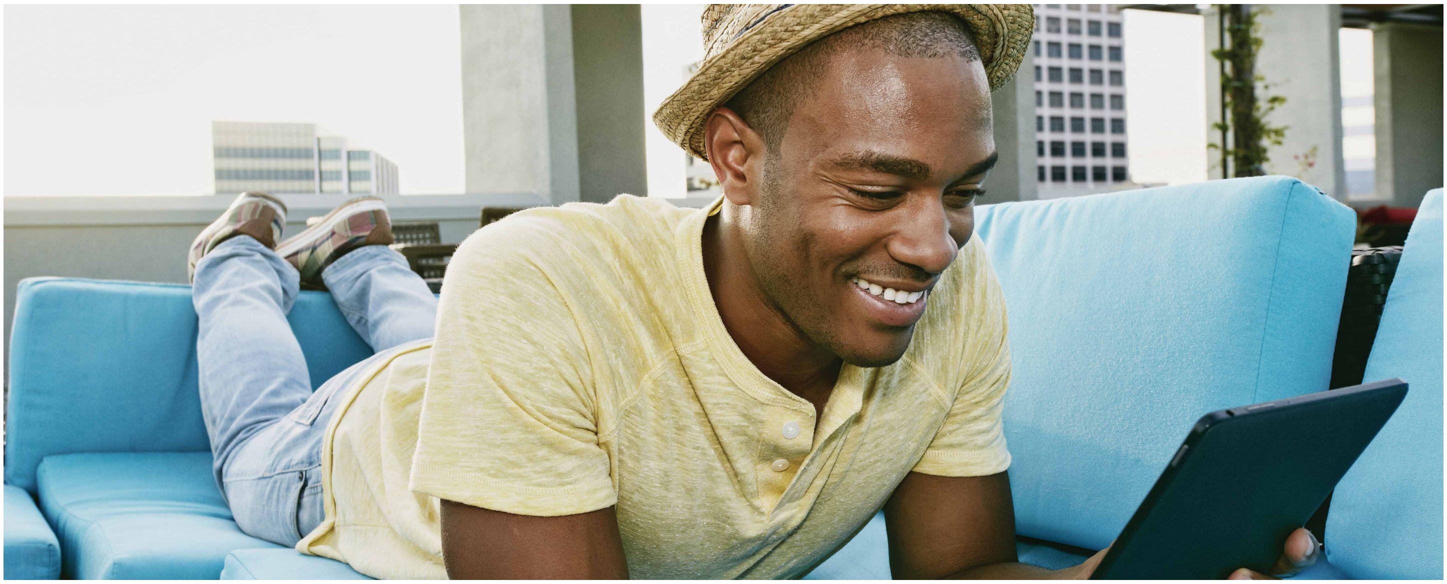
Any investment growth earned after the date of death on a non-trusteed TFSA will be taxed in the same way as any other non-registered investment contract and reported to the beneficiary or estate as applicable. For trusteed TFSAs, the investment growth earned from the time of your death up to the end of the year following the year of death will be reported as "other income" if paid during this period. If the trusteed TFSA still exists after this period, it will become a taxable trust.

If you have a spouse, at the time of your death, the TFSA can continue on a tax-free basis if your spouse becomes the successor holder or the value of assets at the time of death are transferred to your spouse's TFSA. The transfer must occur prior to the end of the year following the year of death and the surviving spouse will designate the transferred amount as an exempt contribution so that it does not impact his or her TFSA contribution room.

[6] Spouse includes common-law partner as these terms are defined in the *Income Tax Act* (Canada).

[7] Any income attributable to deliberate overcontributions will be taxed at 100 per cent.

[8] Borrowing to invest may not be appropriate for everyone. Clients must have the financial means to meet their loan obligations in full regardless of the performance or value of any investments held in their TFSA.



CAN I NAME A BENEFICIARY?

Federal TFSA legislation allows for a spouse, including a common-law partner, to be named the successor holder following your death. To accommodate this, all provinces, except Quebec, have introduced legislation allowing the designation of a spousal beneficiary on a TFSA.

The exception to any deficiencies in provincial legislation is with plans offered by insurance companies. Legislation[9] already exists to allow for beneficiary designations and the naming of a spouse as a successor holder.

At death, proceeds would be paid directly to the named beneficiary or transferred to the successor holder, if applicable. In all other cases the proceeds would be paid to your estate.

WHAT HAPPENS IN THE EVENT OF MARRIAGE BREAKDOWN?

The legislation allows TFSA funds to transfer between spouse's plans in the event of marriage breakdown without impacting the recipient's TFSA contribution room. In this circumstance, the transfer will not reinstate contribution room of the transferor.

WHAT IF I AM NO LONGER A RESIDENT OF CANADA?

If you become a non-resident of Canada, you can continue to hold a TFSA and you will not be taxed in Canada on any earnings in the account or on withdrawals from it.[10] However, you cannot make subsequent contributions to your plan without incurring a penalty. Also, you will not accrue new contribution room while you are a non-resident. Any withdrawals made while you are a non-resident will be reinstated as contribution room in the following year, but will only be available for use if you become a resident again.

NOTE: If you are a U.S. resident or a U.S. citizen, the growth in your TFSA will be taxable under U.S. tax rules as there is no treaty relief. It is important that you speak with a cross-border tax specialist.

WILL TFSAS BE PROTECTED FROM CREDITORS IN THE EVENT OF BANKRUPTCY?

At the time of this writing, TFSAs are not included in the federal legislation that protects registered plans in the event of bankruptcy. TFSAs offered by insurance companies may provide creditor protection, if your named beneficiary is a spouse, parent, child, or grandchild.[11]

[9] Provincial Insurance Acts and the Quebec Civil Code.

[10] It is also important to understand the tax consequences of holding a TFSA under the tax laws of your country of residence or the country in which you are required to file tax returns. Please discuss with your cross-border tax specialist.

[11] In Quebec, the applicable beneficiary designations are your married or civil-union spouse, ascendants or descendants.

IS THERE ANYTHING ELSE I SHOULD KNOW?

There are some unique opportunities available that will make wealth transfer more tax effective than in the past.

Second Generation – Wealth Transfer Now

If you have assets specifically earmarked as a legacy for your adult children, you may want to consider giving an amount to them each year to put into their TFSA so it can grow tax free.

Also, if you have adult children and a spouse who are not making TFSA contributions on their own, you could provide the funds so they could make a contribution thereby increasing the amount of your combined investments that will grow on a tax-free basis.

Second Generation – Wealth Transfer Later

Unlike an RRSP or other assets held outside of your RRSP, which cause a tax liability in your estate at death due to the deemed disposition, a transfer of TFSA assets to your children will not cause a tax liability for your estate. The assets will transfer to them tax free. Only investment income earned on the TFSA assets after your death will become taxable. If your child has sufficient TFSA room, the amount could be contributed to their own TFSA.

When used to its full advantage, a TFSA can be a powerful tool to save money in a tax-free environment.

Comparison of saving options

	Non-registered	RRSP	TFSA
Annual contribution limit	Unlimited	Yes – based on earned income	Yes – no earnings requirement
Carry forward of unused room	n/a	Yes	Yes
Monthly penalty on excess contribution	n/a	Yes – at month end	Yes – on highest excess during month[12]
Tax deductible contribution	No	Yes	No
Tax deferred/free investment growth	No	Yes– tax deferred	Yes – tax free
Taxable on withdrawal	Taxable disposition	Fully taxable	Tax free – except for growth after death if no spouse/successor holder
Withdrawals added to contribution room	n/a	No	Yes – following year[13]
Impacts income-tested benefits/credits	Yes	Yes	No
Minimum age to contribute	No	No	Yes – age 18
Maximum age to contribute	No	Yes – end of year age 71	No
Interest deductible on loan to invest	Yes	No	No
Assets used as collateral for loan	Yes	No	Yes
Tax free/deferred transfer to spouse on death	Yes	Yes	Yes – if successor holder or value at date of death
Tax free/deferred transfer to second generation at death	No – deemed disposition	No – fully taxable unless financially dependent	Yes – investment income after date of death is taxable
Loss denied on transfer-in-kind to plan	Yes	Yes	Yes

[12] Any income attributable to deliberate overcontributions will be taxed at 100 per cent.

[13] Withdrawal of amounts in respect of deliberate overcontributions, prohibited investments, non-qualified investments, asset transfer transactions and income related to those amounts does not create additional TFSA contribution room.

TFSA options with Manulife Investments

Investment options	Manulife Ideal Signature Select™	GIF Select InvestmentPlus®	Manulife Investments GIC[14]	Manulife Investments' mutual funds	Manulife RetirementPlus®	Manulife PensionBuilder®[15]
Contract minimum	$1,000 per Series	$2,500 or $100/mth. PAC	$2,500	N/A	$25,000[16]	$25,000[16]
Fund minimum	$250 per fund	$500 per fund, $5,000 for Dollar Cost Averaging Fund	$1,000 (higher for specialty account types)	$500	$500 per fund per sales charge option $5,000 for Dollar Cost Averaging Fund	Not applicable
PAC	$50/mth.	$100/mth. minimum per fund per sales charge option	Minimum $100 (contract minimum must be met)	$25 (minimum per fund)	$100/mth. minimum per fund per sales charge option	$100/month minimum
Contract maturity date	Customizable Series-based Maturity Benefit Guarantee	December 31st of the year the annuitant turns 100	Annuitant's 100th birthday	N/A	December 31st of the year the annuitant turns 100[17]	December 31st of the year the annuitant turns 100[17]
Scheduled payment option	$100 per fund	$100 a month per fund per sales option	Interest only	Distributions paid in cash[18]	$100/month per fund per sales charge option	$100/month minimum
Guaranteed Income Options[19]	Payout Benefit Guarantee	N/A	N/A	N/A	Single Life and Joint Life income options are available	Single Life and Joint Life income options are available
Cashability	Can withdraw Market Value at any time, less any fees if applicable[20]	Can withdraw Market Value at any time, less any fees if applicable[20]	Surrender charges may apply if withdrawn prior to the maturity date of the account	Can withdraw Market Value less applicable Deferred Sales Charge (DSC) any time	Can withdraw Market Value less Deferred Sales Charges (DSC), if applicable, at any time[21]	Can withdraw Market Value less Deferred Sales Charges (DSC), if applicable, at any time[21]
Investment options	Full suite of funds available; refer to Products and Funds at a Glance (MK3357)	Full suite of funds available; refer to Products and Funds at a Glance (MK2281)	Basic (cashable), Escalating Rate, Laddered Account, Daily Interest	Full suite of funds (Refer to MK1885E)	In the Savings Phase a full suite of funds ranging from fixed income to 100% equity; refer to Products and Funds at a Glance (MK2784)	Not applicable
Application	Client Name CS3882E/F, Nominee Name CS3896E/F	Client Name NN1565E/F, Nominee Name NN0907E/F	NN1566E/F	NN1570E/F	Client Name NN1565E/F, Nominee Name NN0907E/F	Client Name NN1565E/F, Nominee Name NN1603E/F

[14] Manulife Investments Guaranteed Interest Contract (GIC) Basic Non-Cashable Account is not eligible.

[15] Only applicable for contracts sold on or after October 28, 2013.

[16] Elite Pricing is not available for TFSA contracts.

[17] Prior to reaching your Contract Maturity Date the annuitant will have the option to extend the Contract Maturity Date to allow for the continuation of contract benefits.

[18] Client has the option of reinvesting distributions or receiving them in cash. Distribution frequency varies by fund (monthly, quarterly, annually) as does distribution composition (interest, dividend, capital gains and return of capital, etc.). Client can also choose to set up a systematic withdrawal plan (minimum $50 per fund).

[19] The Joint Life must be the spouse or common-law partner (as defined in the *Income Tax Act* (Canada)) of the annuitant. Once named, the Joint Life cannot be changed.

[20] For GIF Select InvestmentPlus and Manulife Ideal Signature Select the 2% fee may be applied on withdrawals within 90 days of a deposit.

[21] For Manulife RetirementPlus there may be an additional 2% fee charged if the client takes an unscheduled withdrawal from the Savings Phase within 90 days of a deposit or 365 days of a Transition into the Preservation or Income Phase. For Manulife PensionBuilder there may be an additional 2% fee charged if the client takes an unscheduled withdrawal within one year of a deposit.

Manulife Bank offers two TFSAs

	Tax-Free Advantage Account	Tax-Free GIC
Product summary	High-interest, fully liquid Tax-Free Savings Account	Long-term interest-bearing investment
Tax status	Tax-Free Savings Account (TFSA)	Tax-Free Savings Account (TFSA)
Availability	Client name (off-book)	Client name (off-book)
Minimum deposit	None	$2,500
Interest structure	Variable rate. Full rate paid on every dollar. No tiers	Annual compound interest paid at maturity
Liquidity	Fully liquid – no penalty for withdrawal	Can be redeemed prior to maturity, subject to market value adjustment and expense recovery fees
Deposit options	Deposit cheque by mail, local deposit via advisor, funds transfer, internet and phone transfer	Cheque, local deposit via advisor
Deposit Fees	None	None
Withdrawal options and fees	Official Cheque, transfer to another bank account, transfer to other TFSA account of same account holder no withdrawal fees	Can be redeemed prior to maturity, subject to market value adjustment and expense recovery fees
Statements	Quarterly	Deposit confirmation and renewal notice

TOP 10 THINGS TO KNOW ABOUT THE TAX-FREE SAVINGS ACCOUNT FROM MANULIFE

1. The Tax-Free Savings Account (TFSA) has been available in Canada since January 1, 2009.
2. You can open a TFSA if you're 18 years of age and are a Canadian resident.
3. The TFSA lets you invest while not being taxed on interest or any investment earnings.
4. The annual contribution is currently $5,500 per year. Increases rounded to the nearest $500, will be applied as warranted by the consumer price index. The annual contribution limit was $5,000 in years 2009 to 2012, $5,500 for years 2013 and 2014, $10,000 in 2015 and $5,500 in 2016.
5. The Government will determine the amount remaining for you to contribute to your TFSA the following year. Any unused contribution room gets carried over to the next year.
6. If you make a withdrawal, the amount withdrawn will be added to the contribution room available for the following year.
7. You can have more than one TFSA, including TFSAs with other financial institutions. The important thing is to remember how much you've contributed in total, and make sure you don't exceed your contribution room.
8. Unlike an RRSP, you don't pay tax on any money you withdraw from the TFSA. Withdrawals also don't affect your ability to qualify for Federal Benefits such as the Child Tax Benefit or Old-age Security.
9. With Manulife, you'll be able to invest in segregated fund contracts, GICs[22], high-interest savings accounts, and mutual funds.
10. Money invested in a TFSA cannot be deducted from your income on your tax return; only contributions to a RRSP qualify as a deduction.

[22] Manulife Investments GIC Basic non-cashable account is not eligible.

For more information, please contact your advisor or visit **manulife.ca/investments**

Borrowing to invest in a TFSA may be appropriate only for investors with higher risk tolerance. You should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified. The value of your investment will vary and is not guaranteed however you must meet your loan obligations and repay the loan in full. Please ensure you read the terms of your loan agreement and the investment details for important information. Talk to your advisor to find out more about the risks and obligations of borrowing to invest.

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