



# Your Guide to Understanding the TFSA

TAX-FREE SAVINGS ACCOUNT

2026/2027

# Table of Contents

<b>What Is a TFSA?</b>	<b>4</b>
<b>Who Can Open a TFSA?</b>	<b>4</b>
Eligibility requirements	
<b>Benefits of a TFSA</b>	<b>6</b>
Tax-sheltered savings	
Flexibility	
Who should have a TFSA?	
<b>Savings for Planned and Unplanned Needs</b>	<b>7</b>
<b>Benefits for Retirees</b>	<b>8</b>
<b>Benefits for Low-Income Earners</b>	<b>9</b>
<b>Non-Resident Holders</b>	<b>9</b>
Qualified investments in a TFSA	
<b>Canada Revenue Agency</b>	<b>11</b>
TFSA contribution room	
Surname, SIN and date of birth must match CRA records	
<b>Contributions and Withdrawals</b>	<b>12</b>
Contributions	
Unused contribution room	
Over-contributions	
<b>Withdrawals</b>	<b>15</b>
<b>Transfers</b>	<b>16</b>
No attribution rule	
<b>Death of a TFSA Holder</b>	<b>17</b>
Spouse as successor holder	
Spouse as designated beneficiary	
Designated beneficiaries	
Donations to a qualified donee	
<b>Borrowing Money to Purchase a TFSA</b>	<b>20</b>
Use of TFSA as security for a loan	
<b>Tax Payable &amp; Penalties</b>	<b>21</b>
Excess TFSA amount	
Non-resident contribution	
Non-qualified or prohibited investments	
Prohibited transactions	
Account advantages and benefits	
<b>TFSA vs. Non-Registered Investment Account</b>	<b>24</b>
<b>TFSA vs. RRSP</b>	<b>25</b>
<b>How Do You Get Started?</b>	<b>26</b>

This booklet has been created by Central 1 Credit Union to provide basic information regarding the Tax-Free Savings Account (TFSA) as a courtesy of your financial institution and is based on legislation in effect as of April 2026.

All examples provided are hypothetical and for illustrative purposes only. Please contact your investment representative at your branch to obtain personalized advice on your financial plan.

Further information related to the TFSA and other registered products may be obtained by phone at **1-800-959-8281** or through the Government of Canada website: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account.html>

# What Is a TFSA?

Introduced in 2009, the Tax-Free Savings Account (TFSA) is an investment vehicle, available to Canadian residents aged 18 or older, that allows you to earn income and gains on your investments free of tax. The owner of the account, known as the holder, makes contributions to the TFSA and must have a valid Social Insurance Number (SIN) when the account is opened.

As with the Registered Retirement Savings Plan (RRSP), the TFSA is a savings vehicle that helps you set aside money for future needs. The primary difference is that money contributed to a TFSA is made in after-tax dollars and, as a result, is not subject to tax upon withdrawal.

# Who Can Open a TFSA?

## Eligibility requirements

A TFSA is available to individuals who meet all the following requirements:

- Is a resident of Canada at the time of purchase;
- Is 18-years of age or older; and
- Has a valid SIN

If you reside in a region where the age of majority is 19, you might not have the option to start a TFSA unless there are specific rules in place, like those for certain credit unions in British Columbia. However, you will continue to build up TFSA contribution room once you turn 18. Please consult the table below:

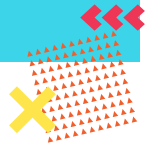
Province	Age of Majority
Alberta	18
British Columbia	19
Manitoba	18
New Brunswick	19
Newfoundland and Labrador	19

Province	Age of Majority
North West Territories	19
Nova Scotia	19
Nunavut	19
Ontario	18
Prince Edward Island	18
Quebec	18
Saskatchewan	18
Yukon Territories	19

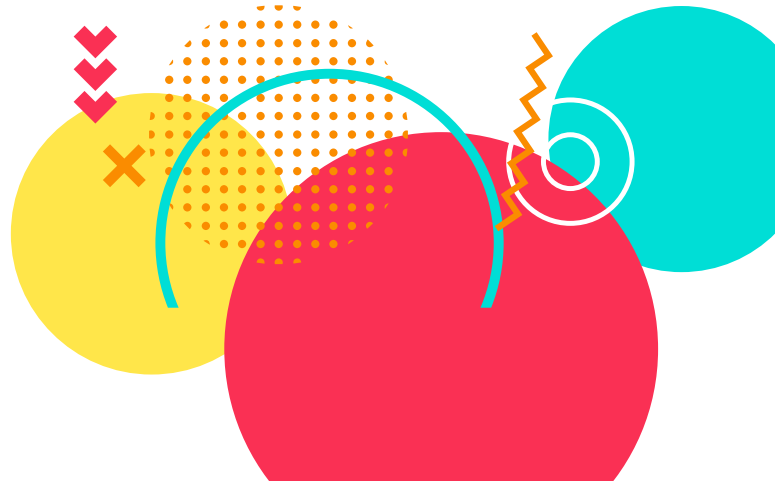
## Consult your financial institution regarding age requirements for a TFSA.

As holder, and owner of the TFSA, you can have as many TFSA's as you wish as long as you don't exceed your lifetime limit as provided by the CRA.

It is important that you keep track of your TFSA contributions to avoid any over-contribution penalties imposed by the CRA.



A TFSA is only available to individuals and is not available for purchase by a corporation or trust.



## Benefits of a TFSA

### Tax-sheltered savings

One of the primary benefits of a TFSA is the tax-sheltered savings.

A TFSA allows you to invest money in the account without being taxed on the income or growth of the assets held in the TFSA. This tax-free growth results in faster savings compared to investing in a non-registered account.

### Flexibility

A TFSA offers a tax-efficient way to save for future expenses. Unlike an RRSP or RESP, a TFSA is available to individuals at any stage of life, regardless of income level. There is no restriction on how you spend the funds. You could use your savings from your TFSA on a wedding, a car, a home, to start a small business or even to take a vacation.

Another benefit of the TFSA is that there is no time limit for how long the account can stay open. You can maintain the TFSA for as long as you like. There are no age restrictions for when the account needs to close.

### Who should have a TFSA?

The TFSA appeals to all people including the following investor profiles: young adults who are just starting out in the workforce, people who receive an inheritance or a financial windfall, people already saving in taxable investment accounts, retirees who have reached age 71 and must receive an annual RRIF payment, and individuals saving for everyday items and unexpected expenses.

Although the TFSA can be used for various savings scenarios, **holders must remember that a TFSA is not a chequing account.** To benefit from tax-free growth in a TFSA, you need to adopt a buy and hold strategy and leave the money invested for a set period.

## Savings for Planned and Unplanned Needs

The TFSA can be used to fund a variety of unplanned expenses that you may face over the years, such as auto and household repairs, and other big-ticket items. You can withdraw from your TFSA at any time to pay for these expenses without being taxed on the proceeds. Since the TFSA is funded with after-tax dollars, your withdrawals and growth remain tax-free.

### EXAMPLE

John and Sarah are a single-income family. Since they were married, John has been making contributions to his TFSA and gifts Lily with the funds to contribute to hers.

They recently decided to renovate their entire kitchen. They each took out \$20,000 from their TFSAs tax free and will be able to re-contribute this amount to their TFSAs the following year.

Harold has been contributing \$25 a month to his TFSA since his daughter was born and has earned about 5% per year. Twenty-five years later his daughter is getting married. Now, Harold has accumulated almost \$15,000 of tax-free money in his TFSA, all of which can be withdrawn to help pay for the wedding. The \$15,000 will be reapplied to his contribution room the following year.

## Benefits for Retirees

While the TFSA is a beneficial savings tool for young people, who have more time to grow their savings in a tax-efficient manner, retirees can also benefit from investing through a TFSA.

Considering an RRSP has a maximum age restriction of 71 for making contributions and maturing the plan, with a TFSA there are no maximum age restrictions. You can make contributions and keep the account open for as long as you wish.

Retirees that have a Registered Retirement Income Fund (RRIF) must take annual withdrawals as a taxable income starting the year after the RRIF is opened. With a TFSA, there are no mandatory withdrawal requirements. You can make tax-free withdrawals at any time.

Proceeds from a RRIF payment can be contributed to a TFSA to benefit from continued tax-free growth and the income will not impact federal income-tested benefits.

### EXAMPLE

**Cheryl is 72 and must take a required minimum withdrawal from her RRIF by the end of this year. Her Old Age Security (OAS) benefits and company pension provide her with enough income for her daily needs. So Cheryl contributes the proceeds from her required RRIF payment to her TFSA, where she invests in a term deposit that will mature just in time for the European cruise she has wanted to take for years. The withdrawal from the TFSA for the cruise is not taxable and does not affect her OAS.**

## Benefits for Low-Income Earners

Contributing to a TFSA may be more beneficial for a low-income earner than contributing to an RRSP. This is mainly due to the low tax savings per dollar contributed to an RRSP in addition to the taxation of withdrawals which could reduce an income-tested benefit.

Withdrawals from a TFSA do not affect the Guaranteed Income Supplement (GIS), Employment Insurance (EI) benefits, OAS benefits or the Canada Child Benefit (CCB), among other federal tax credits, since withdrawals are not taxed or reported as income.

### EXAMPLE

**Myles has an annual income of less than \$16,500 and expects to receive the OAS in retirement in addition to GIS and Canada Pension Plan (CPP) benefits. His TFSA generates \$2,000 a year in interest income. Neither this income, nor any withdrawals from the TFSA, will affect the OAS/GIS benefits (or any other federal income-tested benefits and credits) he receives in retirement. If this \$2,000 was included in his taxable income, he would not qualify for the GIS.**

## Non-Resident Holders

The CRA usually considers an individual a non-resident of Canada for tax purposes if they:

- Normally, customarily or routinely live in another country
- Live outside Canada throughout the tax year
- Stay in Canada for less than 183 days in the tax year
- Have no significant residential ties to Canada, such as a home, a spouse or common-law partner, or dependents

If you own a TFSA and subsequently become a non-resident of Canada, the TFSA may remain open and retain its tax-free status, however:

- No contributions may be made
- No contribution room will accumulate

Contributions made to a TFSA while you are a non-resident are subject to a 1% tax for each month the contribution remains in the account.

Withdrawals made while you are a non-resident will be added back to your unused contribution room the year after re-establishing your Canadian residency status.

These rules apply when a TFSA holder becomes a non-resident of Canada.

It is important to note that you will not accrue any contribution room while you live outside of Canada. Your contribution accrual will restart when you reestablish your Canadian residency.

## Qualified investments in a TFSA

A TFSA can accept the same qualified investments as those held in an RRSP.

Types of qualified investments are prescribed under the Income Tax Act (Canada) and include some of the following:

- Cash/Variable Interest Savings Accounts
- Term Deposits and Guaranteed Investment Certificates (GICs)
- Credit Union Membership Shares
- Index-linked Term Deposits
- Mutual Funds

A self-directed TFSA is allowed to hold additional qualified investments such as:

- Bonds
- Securities, listed on a designated stock exchange, including exchange-traded funds (ETFs)
- Mortgages
- Mortgage Investment Corporations (MICs)

Investments in a self-directed TFSA are subject to the investment inclusion policies at your financial institution. However, you are responsible for ensuring the investment is a qualified investment under the Income Tax Act.

## Canada Revenue Agency

### TFSA contribution room

The TFSA contribution room is the maximum amount that can be contributed to a TFSA.

Since 2009, residents of Canada accumulate TFSA contribution room starting the year they are 18 years of age or older.

Individuals can obtain the most up-to-date information about their TFSA contribution room by accessing “My Account” or “My CRA” on the CRA website or by calling the CRA’s Tax Information Phone Service at 1.800.267.6999 (TIPS).

### Surname, SIN and date of birth must match CRA records

The CRA will register a TFSA when the your surname, SIN and date of birth match their records. The CRA will not accept the TFSA for registration if one or more of the required data elements does not match the information in their files.

#### EXAMPLE

**Your date of birth is July 6, 1987. However, when your first tax return was submitted, your date of birth was recorded as 1978. Although your birthdate is recorded correctly with your financial institution on your TFSA application, it does not match the CRA records. To correct this error, you will need to contact the CRA and provide them with supporting documentation to confirm your date of birth.**



**If the error is not corrected, the TFSA loses its tax-free status and all income and gains will be taxable income to the Holder.**



**The TFSA contribution room is made up of the following:**

- **The TFSA contribution limit for the current year**
- **Any unused TFSA contribution room from previous years**
- **Any withdrawals made from the TFSA in the previous year**

## Contributions and Withdrawals

### Contributions

Only the account Holder can contribute to TFSA. However, you can gift your spouse or common-law partner with money to contribute to their own TFSA without triggering income attribution rules.

The maximum TFSA contribution dollar limit for 2026 is \$7,000. TFSA contribution limits are indexed to inflation annually, rounded to the nearest \$500.

The annual contribution limit is not tied to the annual income of the Holder.

<b>Year</b>	<b>Annual Contribution Dollar Amount</b>
<b>2009 - 2012</b>	\$5,000
<b>2013 - 2014</b>	\$5,500
<b>2015</b>	\$10,000
<b>2016 - 2018</b>	\$5,500
<b>2019 - 2022</b>	\$6,000
<b>2023</b>	\$6,500
<b>2024 - 2026</b>	\$7,000
<b>Total Lifetime Contribution to Date</b>	\$109,000

*\*If you were 18 years of age or older in 2009, and have never contributed to a TFSA, then you'll have accumulated TFSA room of \$109,000.*

Unlike the RRSP, TFSA contributions are made with after-tax dollars and are not deductible from earned income.

Even if an individual does not open or contribute to a TFSA, they will still accumulate contribution room throughout their life (the later of, since TFSA inception in 2009 or from age 18).

The Holder can direct an in-kind transfer or contribution of non-registered securities to their TFSA provided the property being contributed is accepted by the financial institution and is a qualified investment under the Income Tax Act.



### Reminder:

In-kind contributions are considered a deemed disposition of capital property for tax purposes and may trigger a capital gain if the Fair Market Value (FMV) of the property exceeds its Adjusted Cost Base (ACB) at the time the transaction occurs. If the property is transferred at a loss, the capital loss is not deductible, and the property will be transferred at its FMV.



## Unused contribution room

When you contribute less than the annual maximum TFSA limit, the difference is referred to as “unused contribution room”.

Unused contributions may be carried forward indefinitely and used in future years. Therefore, after 2009, you could contribute more than the annual limit up to your maximum unused contribution room, in any given year.

### **There is no restriction on how much contribution room can be carried forward.**

A TFSA withdrawal increases the unused contribution room for the year after the withdrawal by the amount of the withdrawal.

Since October 16, 2009, certain withdrawals made in the previous year may not be added back in the following year. These include:

- Withdrawals of amounts included in the definition of advantage
- Amounts on which income tax had to be paid by the TFSA trust
- Any other income related to those amounts

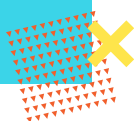
## Over-contributions

As Holder, you are responsible for ensuring your maximum contribution room limit is not exceeded.

An over-contribution will result in a penalty tax on the over-contributed amount at a rate of 1% per month for each month the over-contribution remains in the TFSA.

A withdrawal to correct over-contributions does not increase unused contribution room.

**It is important for you to keep track of your TFSA contributions, especially if you have multiple TFSAs (as the annual contribution limit is per person, not per plan).**



## Withdrawals

There are no withdrawal restrictions on a TFSA. You may withdraw funds at any time and at any age, unless restricted by investment terms and conditions (e.g. 3-year fixed deposit).

Since contributions are made from after-tax income and earnings within the TFSA are tax-free, withdrawals do not generate taxable income and are not subject to withholding tax, as in an RRSP.

Withdrawals from a TFSA do not result in the loss of contribution room for the Holder. The amount of the withdrawal taken from a TFSA is added back to the Holder's unused contribution room in the following year.

### **TFSA withdrawals do not increase the Holder's contribution room in the year of the withdrawal.**


Withdrawals made during the current year should not be re-contributed to a TFSA until the following year, otherwise the amount will be subject to a tax penalty on the over-contribution.

The withdrawal of ineligible amounts due to over-contributions, prohibited investments, asset-transfer (swap) transactions and income related to those amounts does not form part of your TFSA re-contribution room.

If you contributed your annual TFSA limit of \$7,000, and in one year the value of this contribution increased to \$8,500, you could withdraw this \$8,500 tax free. The following year, your contribution room would increase by \$8,500 plus the annual TFSA limit for the new year.

On the other hand, if you contributed \$6,000, saw the value decrease to \$2,000 and made a \$2,000 withdrawal, then the following year the contribution room would only increase by \$2,000 (plus the annual TFSA limit). The \$4,000 in contribution room from the original \$6,000 annual TFSA limit would be lost.

Unlike withdrawals, most transfers will not affect your unused contribution room. Additionally, withdrawals for the purpose of correcting an over-contribution will not affect your unused contribution room either.



**TFSA withdrawals do not impact eligibility for income-tested benefits and credits (e.g. OAS, GIS, Age Credit, HST/GST, EI, Canada Child Benefit, or the Canada Worker's Benefit (CWB), formerly known as the Working Income Tax Benefit).**

## Transfers

Transfers related to a TFSA take place on a tax-deferred basis as long as the funds are **transferred directly**, by your financial institution, to or from:

- Another TFSA owned by the Holder, unless restricted by investment terms (e.g. 3-year fixed deposit);
- The TFSA of a spouse/common-law partner named as the beneficiary on the death of the Holder by way of an exempt contribution; or
- The TFSA of a former spouse/common-law partner on a relationship breakdown.

In all the above cases, a direct transfer will not affect the contribution room of the account holder receiving the funds.

You can instruct a financial institution to transfer from one TFSA to another TFSA in your name provided the proceeds are transferred directly between the TFSAs. If funds are paid out first it would be considered a withdrawal.

When funds are withdrawn, TFSA contribution room is not reinstated until the following year, so withdrawing funds to re-contribute to a new

TFSA in the Holder's name could result in an over-contribution penalty situation.

In the event of a breakdown of your marriage or common-law partnership, an agreed upon sum can be transferred from your TFSA to your ex-spouse's or common-law partner's TFSA without affecting the contribution room of either party.

To transfer the TFSA due to a breakdown in your relationship, you must meet the following conditions:

- The spouses or common-law partners are living separate and apart at the time of transfer; and
- The amount they are entitled to arises from a decree, order or judgment of a court, or under a written separation agreement.

The transfer must be made directly between the TFSAs.

## No attribution rules

Income tax attribution rules come into effect when you gift property to your spouse or common-law partner. In this event the income earned on the transferred property would be attributed to you and included in your taxable income.

However, the TFSA provides an exception to these attribution rules by allowing you to give funds to your spouse or common-law partner to deposit into their TFSA (within their available limit) without the income being attributed back to you.

## Death of a TFSA Holder

A TFSA is an effective estate management tool by providing for the designation of a beneficiary on the TFSA, effectively by-passing the Holder's estate and probate fees.

Where permitted by law, you may designate any individual to receive the proceeds of the TFSA upon your death. The following appointments apply in all jurisdictions except for Quebec.

## Spouse as successor holder

A TFSA Holder may appoint his or her spouse or common-law partner as the successor Holder either in the TFSA account or in their will.

If named as the successor Holder, the surviving spouse or common-law partner will become the new Holder of the TFSA immediately upon the death of the original Holder. The TFSA continues to exist, and the successor Holder assumes ownership of the TFSA. Any income earned after the original Holder's death will continue to be sheltered from tax under the new successor Holder.

The successor Holder, after taking over ownership of the TFSA, can make tax-free withdrawals from that account and can also make new contributions to that account (subject to their own unused TFSA contribution room).

## Spouse as designated beneficiary

If the Holder designates his spouse or common-law partner as a beneficiary instead of successor Holder, the surviving spouse or common-law partner has the option to make an election by way of the CRA form RC240 (Designation of an Exempt Contribution - Tax-Free Savings Account (TFSA)) to designate all or a portion of the value of the deceased's TFSA, at the time of death, to a TFSA in his or her name. The transaction must occur by the end of the calendar year following the Holder's year of death and the CRA election must occur within 30 days of making the contribution.

## Designated beneficiaries

The Holder of a TFSA may designate an individual, other than their spouse/common-law partner, as beneficiary or may choose not to name any beneficiary at all.

When a TFSA Holder dies, and there is no successor Holder appointed, the TFSA ceases to exist and no longer benefits from a tax-free status. Any increase in the value of the TFSA after the date of death is considered taxable income

## EXAMPLE

**Gordon's mother passed away on June 8, 2025. The value of her TFSA on the date of death was \$10,000. Gordon is named the sole beneficiary on the TFSA. The TFSA is settled to Gordon on April 15, 2026 in the amount of \$10,300. As the value of the TFSA on the date of death is not taxable, Gordon receives the full amount of \$10,300. However, he is issued a tax-information slip in the amount of \$300 to report the taxable income earned in the TFSA from the date of death to the date of payout. Gordon must report this amount on his personal tax return for the year of the settlement.**

to the receiving beneficiary or to the deceased Holder's estate, when no valid beneficiary designation exists. The value of the TFSA as of the date of death continues to be tax-free.

## Donation to a qualified donee

Where the TFSA Holder names a Canadian registered charity a beneficiary of the TFSA, the transfer of funds to the registered charity must occur within the 36-month period following the Holder's death. If the transfer occurs during this 36-month period, the transfer is deemed to be a donation or gift made immediately before the Holder's death. Once the donation has been completed, the estate representative can claim the charitable donation tax credit.

Examples of a qualified donee:

- A registered charity
- A registered Canadian amateur athletic association
- A registered journalism organization
- A registered Canadian municipality

You should seek independent tax-advice prior to designating a charitable organization as a beneficiary of your TFSA.

**All beneficiary designations are subject to the acceptance of the financial institution.**

## Borrowing Money to Purchase a TFSA

Unlike money borrowed to purchase non-registered investments, interest charged on money borrowed to invest in an TFSA cannot be deducted for tax purposes.

### Use of TFSA as security for a loan

A TFSA Holder may pledge his or her account as security for a loan where the TFSA is governed by a trust that allows the account to be pledged, and where:

- The loan is an arms-length transaction; and
- No one, other than the Holder, will receive a taxable benefit of any kind from the proceeds of the loan.

Where a loan does not meet the requirements under the Income Tax Act, the CRA may deem the TFSA to be invalid and the account will lose its tax-sheltered status.

Your financial institution may not permit the use of a TFSA as security for a loan. Check with your financial institution if you have any questions.

## Tax Payable & Penalties

### Excess TFSA amount

Over-contributions above the annual contribution limit are subject to a penalty tax of 1% per month on the excess amount. In addition, the CRA may impose a penalty of 100% on any income earned from the excess contribution. Unlike the RRSP, there is no \$2,000 threshold for over-contributions to a TFSA.

**The 1% per month penalty will continue to apply for each month that the excess amount remains in the TFSA and it will continue to apply until the earlier of:**

- **The entire excess amount is withdrawn; or**
- **The entire excess amount is absorbed by the addition of unused contribution room in a later year.**

If a partial withdrawal of the excess contribution is made, the 1% per month penalty will be reduced by that withdrawal.

### Non-resident contribution

If you make a TFSA contribution while you are a non-resident of Canada, the TFSA will be subject to a penalty tax in the amount of 1% for each month the non-resident contribution remains in the account. This penalty will continue to apply until the earlier of:

- The non-resident contribution is withdrawn in full and designated with the CRA as a withdrawal of non-resident contributions; or
- You reestablish residency in Canada.

## Non-qualified or prohibited investments

A TFSA is subject to severe tax consequences in any of the following scenarios:

- The TFSA holds a non-qualified investment;
- The TFSA carries on a business (such as day trading); or
- The TFSA invests in a prohibited investment.

If any of the above situations occur, the TFSA will be taxed on any income earned and capital gains derived from the non-qualified investment or business are subject to trust-reporting requirements to the CRA.

Prohibited investments are subject to a 50% tax on the value of the property at the time it was purchased or became a prohibited investment, and subject to a 100% advantage tax on any income or gains derived from the property while it remains in the TFSA. The CRA implemented these tax measures to discourage abusive tax-planning arrangements within a TFSA.

## Prohibited transactions

Swap transactions have been prohibited in a TFSA since October 16, 2009. These rules ban the TFSA Holder from transferring investments (such as cash and securities) between the TFSA and the Holder's non-TFSA account(s) regardless of whether the transfer was done at fair market value.

Any swap transactions that occur in the TFSA will be subject to a 100% advantage tax based on the value of the assets being swapped.

## Account advantages and benefits

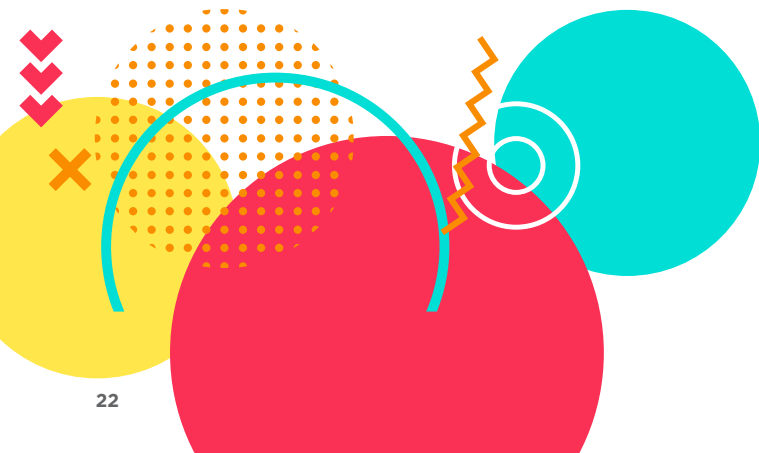
If you, or anyone related to you, was provided with an advantage, certain benefit, or debt that is conditional on the existence of your TFSA, you may be subject to an advantage tax:

- In the case of a benefit, the FMV of the benefit; and
- In the case of a debt or loan, the amount of the debt or loan

The Income Tax Act stipulates that a TFSA issuer cannot provide you, the Holder, with any benefits or advantages that are in any way conditional on the existence of the TFSA, such as merchandise, trips, or interest-free loans. These types of incentives will be taxed to you as the recipient of the advantage.

The CRA has granted exceptions to certain benefits, which will not be taxed to you so long as the benefit is credited directly to the TFSA and not to you.

**Benefits received by someone other than your TFSA issuer will be subject to a penalty tax of 100% of the benefit. You will be responsible for reporting the transaction to the CRA and paying the penalty tax.**



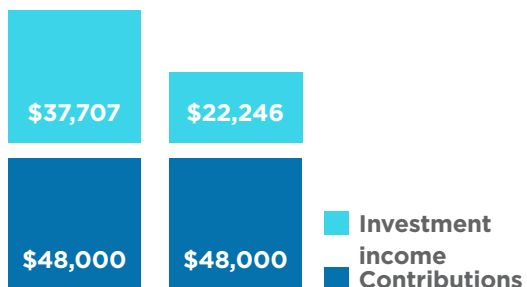
## TFSA vs. Non-Registered Investment Account

One of the main benefits of holding assets within an TFSA compared to a non-registered investment is the tax-deferred growth on income and gains while held within the TFSA. This benefit results in your TFSA savings growing faster than it would in a traditional non-registered investment account.

### Assumptions:

The following illustration is based on you making \$200 monthly contributions for 20 years and earning an annual rate of return of 5%.

### TFSA vs. Non-registered savings illustration



\*Balance after 20 years: \$85,707 vs \$70,246 in a non-registered (taxable) investment account.

The benefits of the TFSA over a non-registered investment account increases as your marginal tax rate increases.

*This example is hypothetical and for illustrative purposes only and is not intended as a replacement for investment advice.*

## TFSA vs. RRSP

The TFSA and the RRSP both offer tax efficient savings, but there are key differences, as noted below:

	TFSA	RRSP
Tax Deductible Deposits	✗	✓
Tax-Sheltered Growth of Investments	✓	✓
Taxed Withdrawals	✗	✓
Spousal Contributions	✗	✓
Unused Contribution Carry-Forward	✓	✓
Withdrawals Increase Contribution Room	✓	✗
Withdrawals Affect Federal Gov't Benefits	✗	✓
Maximum Age Limit	✗	✓
Contribution Limit Based on Earned Income	✗	✓
Maximum Contribution (2026)	\$7,000	Lesser of \$33,810.00 or 18% of previous year's earned income

One aspect to consider when deciding whether to contribute to a TFSA or RRSP is how an investor's tax rate at the time of withdrawal will compare to his or her current tax rate.

If at the time of expected withdrawal:

- The expected tax rate is similar to the investor's tax rate when contributing; TFSA and RRSP are equally attractive
- The expected tax rate is lower than the investor's tax rate when contributing; then the RRSP may be a better choice.
- The expected tax rate is higher than the investor's tax rate when contributing; then the TFSA may be a better choice.

## How Do You Get Started?

Please visit your local financial institution branch to discuss how a TFSA can enhance your financial plan. Before making any investment decisions, it is advised that you ask your financial advisor about deposit insurance protection.



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