CIBC PRIVATE WEALTH

SLATER FINANCIAL GROUP

Slater Chronicles January 2023

Wishing you and yours a safe, healthy and happy 2023.

With the recent announcement about the new **First Home Savings Account** (FHSA) as well as the increase to the yearly **Tax Free Savings Account** (TFSA) contribution limit, we thought a quick review of the key features and benefits of these accounts, as well as the **Registered Retirement Savings Plan** (RRSP), would be a great topic to kick off the New Year.

Mark

TFSAs, RRSP and the new FHSA account – which accounts make sense for you?

At first glance, the **FHSA** account appears to be an excellent option for anyone looking to buy a home. This account provides tax deductibility for your contributions, tax-free growth of the investments in the FHSA and the flexibility to withdraw the fund's tax-free to buy a home or transfer to an RRSP or RRIF if you decide not to buy a home.

While the final features and availability of the **FHSA** accounts are anticipated to be available on or about April 1st, 2023, here are the details available thus far.

FHSA:

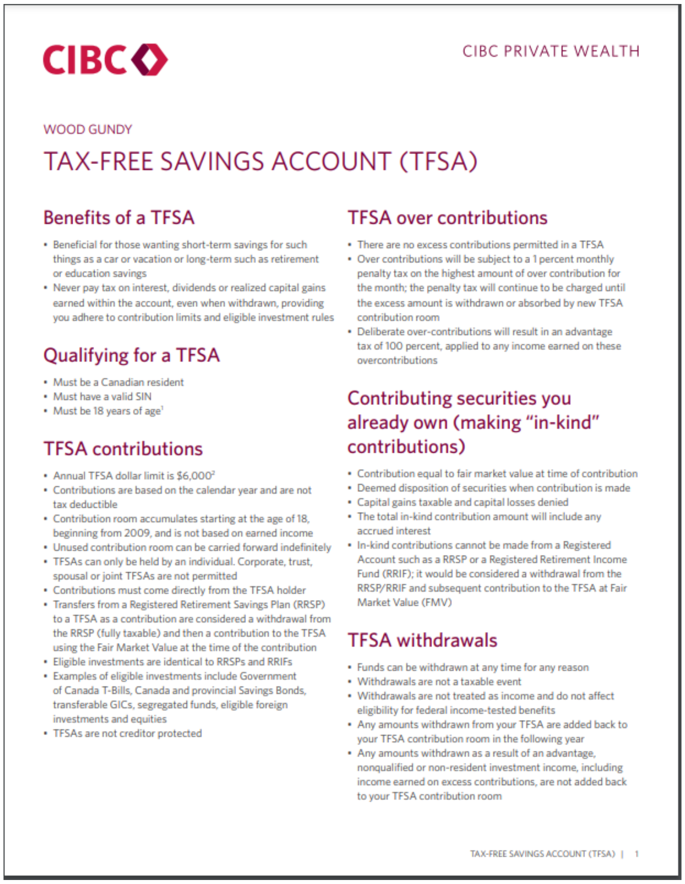
- Any Canadian who is over the age of 18 and is a resident of Canada can have a FHSA as long as they haven't owned a home in the current year or the previous four calendar years.
- The FHSA will have an $8,000 annual maximum contribution limit, and unused contribution room can only be accrued and carried forward if an FHSA account has been established.
- The FHSA would allow first-time home buyers to save up to $40,000. Similar to an RRSP, contributions would be tax-deductible; like a TFSA, account withdrawals to buy a first home - including investment income - would be non-taxable.
- You can transfer funds specifically from an RRSP to an FHSA, subject to the $8,000 annual amount and $40,000-lifetime limits.
- If you don't buy a home within 15 years, the account must be closed. Any remaining funds in the FHSA can be rolled over tax-free into an RRSP or RRIF or withdrawn subject to taxes.
- The link to the government website containing the latest facts can be found here.

For younger Canadian who may be in a lower tax bracket at the start of their careers and have shorter-term goals like saving for a home, the TFSA or the new FHSA account may make most sense.

For longer-term goals, RRSP and TFSA offer key benefits for saving and investing, but there are other factors to consider, such as your age, income, and savings goals, when considering the best account to use.

For example, if you anticipate a higher retirement tax rate, a TFSA contribution may be more suitable than an RRSP. In contrast, if your tax rate in retirement is expected to be lower, then an RRSP may be a better first contribution option. If tax rates are expected to be similar in retirement, then the TFSA and RRSP offer similar benefits.

Key features of TFSA and RRSPs



CIBC PRIVATE WEALTH

WOOD GUNDY

TAX-FREE SAVINGS ACCOUNT (TFSA)

Benefits of a TFSA

- Beneficial for those wanting short-term savings for such things as a car or vacation or long-term such as retirement or education savings
- Never pay tax on interest, dividends or realized capital gains earned within the account, even when withdrawn, providing you adhere to contribution limits and eligible investment rules

Qualifying for a TFSA

- Must be a Canadian resident
- Must have a valid SIN
- Must be 18 years of age[1]

TFSA contributions

- Annual TFSA dollar limit is $6,000[2]
- Contributions are based on the calendar year and are not tax deductible
- Contribution room accumulates starting at the age of 18, beginning from 2009, and is not based on earned income
- Unused contribution room can be carried forward indefinitely
- TFSAs can only be held by an individual. Corporate, trust, spousal or joint TFSAs are not permitted
- Contributions must come directly from the TFSA holder
- Transfers from a Registered Retirement Savings Plan (RRSP) to a TFSA as a contribution are considered a withdrawal from the RRSP (fully taxable) and then a contribution to the TFSA using the Fair Market Value at the time of the contribution
- Eligible investments are identical to RRSPs and RRIFs
- Examples of eligible investments include Government of Canada T-Bills, Canada and provincial Savings Bonds, transferable GICs, segregated funds, eligible foreign investments and equities
- TFSAs are not creditor protected

TFSA over contributions

- There are no excess contributions permitted in a TFSA
- Over contributions will be subject to a 1 percent monthly penalty tax on the highest amount of over contribution for the month; the penalty tax will continue to be charged until the excess amount is withdrawn or absorbed by new TFSA contribution room
- Deliberate over-contributions will result in an advantage tax of 100 percent, applied to any income earned on these overcontributions

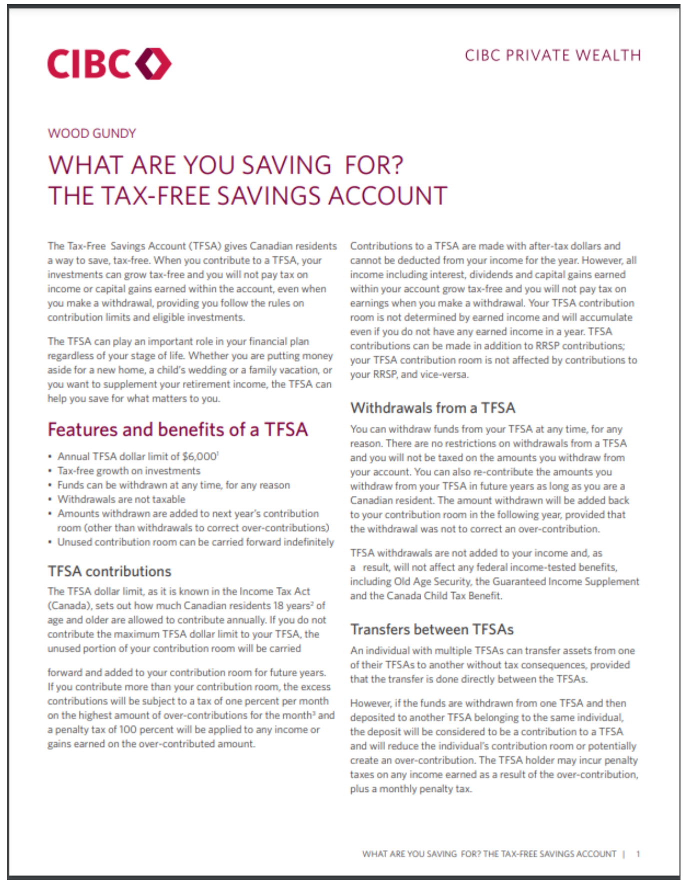
Contributing securities you already own (making “in-kind” contributions)

- Contribution equal to fair market value at time of contribution
- Deemed disposition of securities when contribution is made
- Capital gains taxable and capital losses denied
- The total in-kind contribution amount will include any accrued interest
- In-kind contributions cannot be made from a Registered Account such as a RRSP or a Registered Retirement Income Fund (RRIF); it would be considered a withdrawal from the RRSP/RRIF and subsequent contribution to the TFSA at Fair Market Value (FMV)

TFSA withdrawals

- Funds can be withdrawn at any time for any reason
- Withdrawals are not a taxable event
- Withdrawals are not treated as income and do not affect eligibility for federal income-tested benefits
- Any amounts withdrawn from your TFSA are added back to your TFSA contribution room in the following year
- Any amounts withdrawn as a result of an advantage, nonqualified or non-resident investment income, including income earned on excess contributions, are not added back to your TFSA contribution room

TAX-FREE SAVINGS ACCOUNT (TFSA) | 1



CIBC PRIVATE WEALTH

WOOD GUNDY

WHAT ARE YOU SAVING FOR?
THE TAX-FREE SAVINGS ACCOUNT

The Tax-Free Savings Account (TFSA) gives Canadian residents a way to save, tax-free. When you contribute to a TFSA, your investments can grow tax-free and you will not pay tax on income or capital gains earned within the account, even when you make a withdrawal, providing you follow the rules on contribution limits and eligible investments.

The TFSA can play an important role in your financial plan regardless of your stage of life. Whether you are putting money aside for a new home, a child's wedding or a family vacation, or you want to supplement your retirement income, the TFSA can help you save for what matters to you.

Features and benefits of a TFSA

- Annual TFSA dollar limit of $6,000[1]
- Tax-free growth on investments
- Funds can be withdrawn at any time, for any reason
- Withdrawals are not taxable
- Amounts withdrawn are added to next year's contribution room (other than withdrawals to correct over-contributions)
- Unused contribution room can be carried forward indefinitely

TFSA contributions

The TFSA dollar limit, as it is known in the Income Tax Act (Canada), sets out how much Canadian residents 18 years[2] of age and older are allowed to contribute annually. If you do not contribute the maximum TFSA dollar limit to your TFSA, the unused portion of your contribution room will be carried

forward and added to your contribution room for future years. If you contribute more than your contribution room, the excess contributions will be subject to a tax of one percent per month on the highest amount of over-contributions for the month[3] and a penalty tax of 100 percent will be applied to any income or gains earned on the over-contributed amount.

Contributions to a TFSA are made with after-tax dollars and cannot be deducted from your income for the year. However, all income including interest, dividends and capital gains earned within your account grow tax-free and you will not pay tax on earnings when you make a withdrawal. Your TFSA contribution room is not determined by earned income and will accumulate even if you do not have any earned income in a year. TFSA contributions can be made in addition to RRSP contributions; your TFSA contribution room is not affected by contributions to your RRSP, and vice-versa.

Withdrawals from a TFSA

You can withdraw funds from your TFSA at any time, for any reason. There are no restrictions on withdrawals from a TFSA and you will not be taxed on the amounts you withdraw from your account. You can also re-contribute the amounts you withdraw from your TFSA in future years as long as you are a Canadian resident. The amount withdrawn will be added back to your contribution room in the following year, provided that the withdrawal was not to correct an over-contribution.

TFSA withdrawals are not added to your income and, as a result, will not affect any federal income-tested benefits, including Old Age Security, the Guaranteed Income Supplement and the Canada Child Tax Benefit.

Transfers between TFSAs

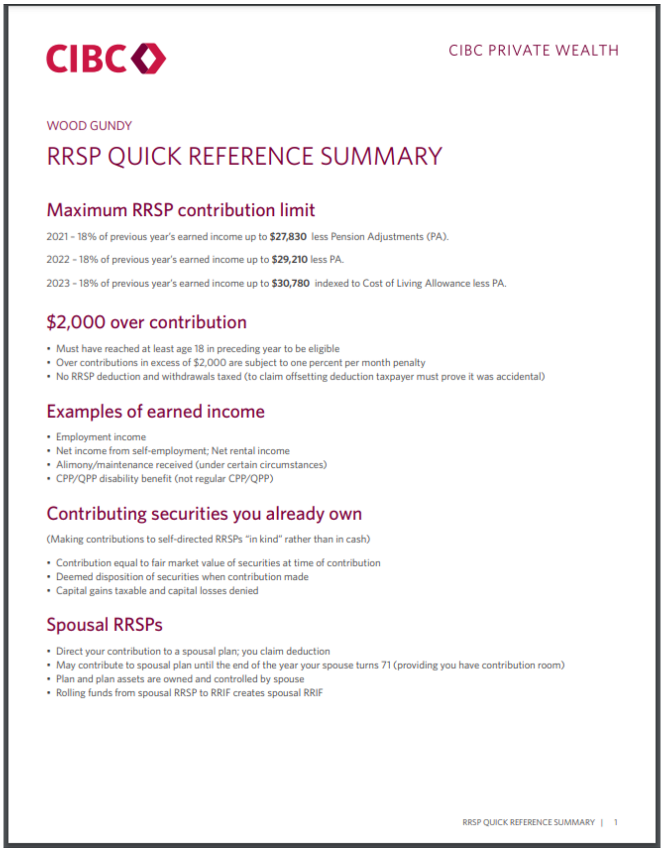
An individual with multiple TFSAs can transfer assets from one of their TFSAs to another without tax consequences, provided that the transfer is done directly between the TFSAs.

However, if the funds are withdrawn from one TFSA and then deposited to another TFSA belonging to the same individual, the deposit will be considered to be a contribution to a TFSA and will reduce the individual's contribution room or potentially create an over-contribution. The TFSA holder may incur penalty taxes on any income earned as a result of the over-contribution, plus a monthly penalty tax.

WHAT ARE YOU SAVING FOR? THE TAX-FREE SAVINGS ACCOUNT | 1

TFSA:

- The annual contribution limit for 2023 has increased to **$6,500**
- As of January 1, 2023, the maximum TFSA contribution is **$88,000** if you have been a resident in Canada and were at least 18 years of age since 2009 but have never contributed in previous years.
- Contributions to your TFSA are not tax-deductible, and investment income earned in the TFSA and withdrawals from a TFSA are not taxable.
- Unused contributions can be carried forward indefinitely.
- Any amounts withdrawn from your TFSA are added back to your contribution room in the following year (except amounts withdrawn to correct an over-contribution).



CIBC CIBC PRIVATE WEALTH

WOOD GUNDY

RRSP QUICK REFERENCE SUMMARY

Maximum RRSP contribution limit

2021 – 18% of previous year's earned income up to **$27,830** less Pension Adjustments (PA).

2022 – 18% of previous year's earned income up to **$29,210** less PA.

2023 – 18% of previous year's earned income up to **$30,780** indexed to Cost of Living Allowance less PA.

$2,000 over contribution

- Must have reached at least age 18 in preceding year to be eligible
- Over contributions in excess of $2,000 are subject to one percent per month penalty
- No RRSP deduction and withdrawals taxed (to claim offsetting deduction taxpayer must prove it was accidental)

Examples of earned income

- Employment income
- Net income from self-employment; Net rental income
- Alimony/maintenance received (under certain circumstances)
- CPP/QPP disability benefit (not regular CPP/QPP)

Contributing securities you already own

(Making contributions to self-directed RRSPs "in kind" rather than in cash)

- Contribution equal to fair market value of securities at time of contribution
- Deemed disposition of securities when contribution made
- Capital gains taxable and capital losses denied

Spousal RRSPs

- Direct your contribution to a spousal plan; you claim deduction
- May contribute to spousal plan until the end of the year your spouse turns 71 (providing you have contribution room)
- Plan and plan assets are owned and controlled by spouse
- Rolling funds from spousal RRSP to RRIF creates spousal RRIF

RRSP QUICK REFERENCE SUMMARY | 1

RRSP:

- You can make RRSP contributions up to **18% of your 2022 earned income**, to a maximum of **$29,210** less any Pension Adjustment, plus any unused contribution room from prior years and Pension Adjustment Reversal.
- The deadline to make an RRSP contribution for the 2022 tax year is **March 1, 2023**.
- Contributions to your RRSP are tax-deductible, and investment income earned in the RRSP is not taxable.
- Amounts withdrawn generally cannot be re-contributed.
- Withdrawals from an RRSP are taxable (certain exceptions are made for the Home Buyers' Plan or Lifelong Learning Plan if repaid following rules).
- You can contribute to RRSP in one year but claim the tax deduction in a future year.

While FHSA's, TFSA's and RRSP's all offer key benefits to help you achieve your goals, it's important to understand each particular situation to help you make the most informed choice.

Reach out to us

As always, we're happy to speak with you or your family members, friends or colleagues trying to figure out which accounts make the most sense for their situation.

Save The Date : "Death and Taxes" with Jamie Golombek, February 15 2023

This virtual event runs from 4:00 p.m. to 5:00 p.m. Eastern

Register here (link is broken)

416 594-8835

mark.slater@cibc.com

Connect on Linkedin

About us

Since 1995 we've made ourselves available to act as a sounding board for anyone who may need urgent financial advice - or just a second opinion. We've been able to help many families. As a result, our business now comes to us almost exclusively through referrals.

So, if you're approached by a friend, neighbour or family member, or if you know someone who needs a sympathetic ear, please let them know we will always find the time to listen, and we'll do our best to help. By making ourselves available this way, we're striving to make people's financial lives less stressful and better, and we're doing well by doing good.

Contact us

West Tower, The Bay Adelaide Centre

333 Bay St., Suite 2800

Toronto, ON M5H 2R2

Tel: 416 980-6960

Toll: 1 800 263-3803

Fax: 416 980-5130

slaterfinancialgroup.com

slaterfinancialgroup@cibc.com