

Tax Tip
Week of October 4, 2010

Transferring a TFSA Between Financial Institutions

If an individual wishes to transfer his or her Tax Free Savings Account to another financial institution, there is a right and wrong way to approach the transaction.

Correct Approach – Set up a TFSA in a new financial institution and have the former bank transfer the funds directly to the new account.

Incorrect Method – Withdraw the funds from the financial institution that currently holds the TFSA and write cheque to make a deposit in the TFSA of the new financial institution.

Although the both methods have the same end result, CRA considers the amount paid to the new financial institution as a contribution. For example, if the individual has previously made a \$5,000 contribution in the calendar year, the amount paid to the new financial institution will also be considered a contribution and therefore the individual will have exceeded the \$5,000 annual limit. As a result, a 1% per month penalty tax will be applied to the amount deposited in the second financial institution.

If you wish to change financial institutions holding a TFSA, have the funds transferred directly between the two banks, rather than making a withdrawal and a new contribution.