

Tax-Free Savings Account (TFSA)

Starting January 1, 2009, Canadians will have a new way to save money with the introduction of the **Tax-Free Savings Account (TFSA)**. A new registered savings account introduced by the Federal Government in the 2008 Budget, the TFSA will help Canadians from all walks of life save for their financial goals. The plan offers great flexibility; funds grow tax free, can be withdrawn at any time on a tax-free basis, and can be used for any purpose.

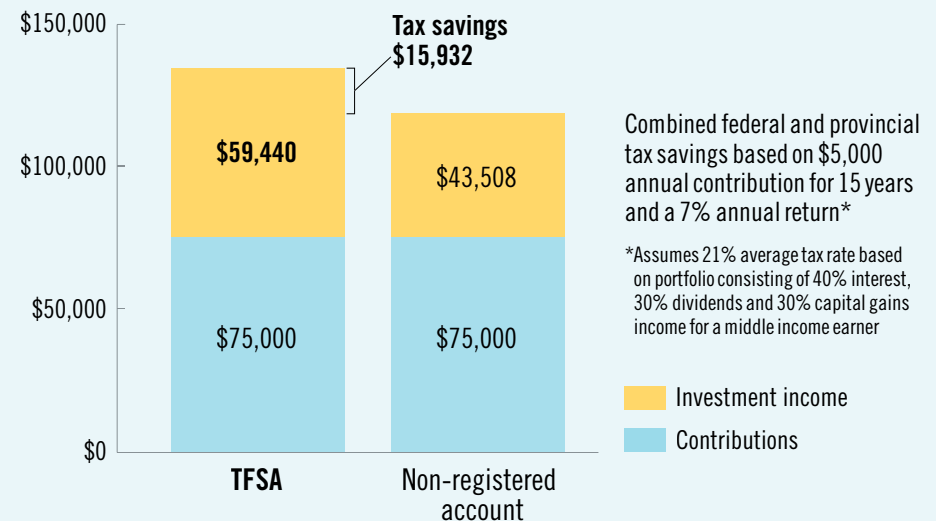
How the TFSA works

- Starting in 2009, Canadian residents age 18 and over can save up to \$5,000 a year in a TFSA
- Contributions are not tax deductible, but investment returns (capital gains, interest and dividends) earned in a TFSA are not taxed, even when withdrawn
- Withdrawals are tax free and funds can be used for any purpose
- Unused contribution room can be carried forward to future years. As well, any amount withdrawn from a TFSA can be re-contributed in a future year without reducing contribution room
- Neither income earned in a TFSA nor withdrawals will affect eligibility for federal tax credits or income-tested benefits such as the Canada Child Tax Benefit, Old Age Security (OAS) or the Guaranteed Income Supplement (GIS)
- Investments eligible for an RRSP can generally be held in a TFSA

Benefits of saving in a TFSA vs. a taxable (non-registered) account

Money will grow faster in a TFSA because income and capital gains earned in the plan are tax free.

EXAMPLE: Assume an individual contributes \$5,000 a year to both a TFSA and a taxable savings account. After 15 years, assuming a 7% return per year, the individual will have accumulated \$15,932 more in a TFSA than in the non-registered account.



EXAMPLES

1

How to use a TFSA

Saving for a financial goal

Michael and Carol have both contributed to a TFSA for eight years; together they have accumulated \$98,200. To pay for a home renovation, they each withdraw \$40,000 from their TFSA, tax free, for a total of \$80,000. The contribution room of both Michael and Carol's TFSAs will increase by \$40,000 and they will be able to recontribute this amount in the future.

2

Senior over age 71

Brian Li is 72 years old, and can no longer contribute to an RRSP (after age 71, investors must convert their RRSPs to an annuity or RRIF and draw down a minimum amount of taxable income per year). Mr. Li has converted his RRSP to a RRIF and is withdrawing the mandatory minimum, although he doesn't require all of the income for living expenses. Each year, Mr. Li can contribute up to \$5,000 of his RRIF withdrawal to a TFSA for continued growth and tax savings.

Is it better to contribute to a TFSA or an RRSP?

While the two savings plans have different features and benefits, they are designed to complement each other. As a Government of Canada brochure states, while an RRSP is primarily intended for retirement, "The TFSA is like an RRSP for everything else in your life."

Generally speaking, whether it is better to contribute to a TFSA or an RRSP depends on two variables – your tax rate when you contribute funds and your tax rate when

you withdraw funds. If you expect to be in a lower tax bracket when funds are withdrawn, an RRSP is probably a better investment. If you expect to be in a higher tax bracket when money is withdrawn, a TFSA may be the better choice. However, each individual situation is unique and other factors may come into play. Talk to your financial advisor about creating a strategy that will work for you.

Who will the TFSA benefit?

- **Young people just starting out:** TFSAs will stimulate more savings when starting at a younger age
- **Seniors:** provides retired people with a means to save on a tax-free basis; neither withdrawals nor income earned in a TFSA will trigger clawbacks on Old Age Security benefits or the Guaranteed Income Supplement
- **High income earners:** taxpayers who have already made the maximum contribution to their RRSP will have another tax-effective savings vehicle
- **Lower income earners:** taxpayers in a lower tax bracket may prefer to forgo the modest tax deduction of an RRSP in exchange for the tax-free growth and withdrawals of a TFSA
- **Anyone saving for a large ticket item:** such as a car, vacation or down payment for a house

In other words, **just about everyone.**



Tax-Free

Talk to your financial advisor about how the Tax-Free Savings Account (TFSA) may fit into your financial plan.

This publication should not be construed as legal or tax advice since each client's situation is different. Please consult your own legal and tax advisors.