

## Tax Free Savings Account (TFSA)

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The Tax Free Savings Account (TFSA) was introduced with the 2008 federal budget. The TFSA is a flexible investment savings program that becomes available January 1, 2009. The TFSA allows individuals to invest after-tax dollars into an account that can grow tax-free. There's no tax deduction available for contributions made to a TFSA and withdrawals are tax-free.

The following link will take you to the TFSA section at Canada Revenue Agency (CRA): <http://www.budget.gc.ca/2008/pamphlet-depliant/pamphlet-depliant2-eng.asp>

### *The TFSA at a glance*

Effective Date	January 1, 2009
Minimum age limit for contributions	18
Maximum age limit for contributions	None
Maturity date	None
Contribution ceiling	\$5,000 in 2009
Indexation of contribution ceiling	CPI rounded to nearest \$500
Carry forward of unused contribution room	Yes
Withdrawal constraints	None
Contributions deductible	No
Taxation of investment income and capital gains/losses	No
Taxation of withdrawals	No
Penalty on excess contributions	1% per month
Impact on social programs	No
Tax slips/contribution receipts issued?	No
CAP guidelines apply	Yes
Vesting	Not applicable

## *Why offer a TFSA as an Employee Benefit?*

A plan member can save within a TFSA for any reason at all – whether for a short or long-term objective. Saving for future healthcare needs is one potential use of the TFSA. Rising health care costs are often unaccounted for in retirement savings. The TFSA presents an opportunity to save extra for healthcare costs or other unforeseen possibilities later in retirement.

The TFSA offers withdrawal flexibility. A plan member's earnings in the TFSA can be taken as tax-free income at any time and without limits. This is particularly useful for plan members who are in early retirement, but have not yet reached the age where they can start to take income from their RRSP. Members can also re-use their contribution room after making withdrawals.

Plan members may wish to take advantage of the withdrawal flexibility to make a down payment on a home. For some plan members, it may be more tax-efficient to use the TFSA than the Home Buyer's Plan.

Spouses or partners can be named as beneficiaries, allowing plan members to roll over the proceeds of their TFSA to their spouse or common-law partner upon their death. Unlike the RRSP, when the second party dies, the proceeds are not taxable, therefore, a plan member's children can inherit the total amount of the TFSA, up to the date of death, tax-free.

For plan members who maximize their RRSP contribution room each year, the TFSA provides extra room for tax sheltering. This will be of interest to high-income earners who wish to supplement amounts held in their RRSP.

## *Contribution room*

There's a maximum contribution limit per year for the TFSA. Individuals may have multiple TFSA's at various financial institutions, however the maximum amount applies to all accounts they may hold. As of January 1, 2009, the annual contribution limit is \$5,000 and TFSA contribution room begins to accumulate at this date. Contributions are indexed to inflation each year and increase in \$500 increments. Unlike an RRSP, the TFSA contribution limit isn't based on earned income. The \$5,000 contribution limit is available to all eligible individuals, regardless of yearly income. Any unused contribution room is carried forward indefinitely, similar to an RRSP.

## *Eligibility for TFSA*

To qualify for a TFSA, the member must be a Canadian citizen and be over the age of 18. To generate TFSA contribution room, the member must have filed an income tax return in Canada. To be eligible, the member must provide their date of birth and social insurance number during the TFSA application process.

## *TFSA Benefits*

- Flexible investment vehicle for members at all life stages and all levels of saving
- Potential for increased after-tax savings compared to a non-registered investment. There may also be advantages over contributing to an RRSP depending on the member's tax rate at the time of withdrawal from the RRSP
- Provides additional savings vehicle for members who don't have any RRSP contribution room available, or have no contribution room left due to a pension adjustment
- Members over age 71 are eligible for the TFSA
- Maintain RRSP contribution room by withdrawing from a TFSA as opposed to utilizing the Home Buyers' Plan or the Lifelong Learning Plan
- Save for a new car, vacation or emergency savings with a TFSA and tax-free withdrawals.