

## **The Tax-Free Savings Account (TFSA) available at Security Financial in 2009**

Beginning in January 2009, you will have a new tax-sheltered option for saving money, thanks to the new Tax-Free Savings Account (TFSA). Introduced by the federal government in their 2008 Budget, the TFSA allows you to save or invest your money without paying tax on any income or capital gains. You can also withdraw funds tax-free at any time.

### **Getting started**

The TFSA will be suitable for individuals of all income levels, 18 years of age or older, who have filed a tax return. Unlike a Registered Retirement Savings Plan (RRSP) or a Registered Educational Savings Plan (RESP), a TFSA helps you save for any financial goal at any point in the future, for what matters most to you - a car, home renovations, starting a new business, a rainy day or retirement. You may even be able to use your TFSA assets as security for a loan.

### **Contributions**

Initially, your annual contribution room is \$5,000 per calendar year. You will not have to contribute the maximum every year, as the unused contribution room can be carried forward to future years. This contribution room is in addition to any RRSP contribution limit you may have, but unlike an RRSP, you won't be able to deduct your TFSA contributions on your income tax return. In future years, the \$5,000 annual contribution will be indexed to inflation in annual \$500 increments. Unused contribution room will be carried forward indefinitely, with no limits. If you over contribute, the Canada Revenue Agency will assess a 1% penalty for each month that excess contributions remain in your account.

### **Withdrawals**

You can withdraw funds from your TFSA at any time, for any reason. Withdrawals will not be subject to taxes, so you can keep all that you have earned. The amount withdrawn during the year will be added to your unused contribution room the following year. So you don't lose contribution room by withdrawing- you get it back in the following calendar year. Your contribution room for the next year increases to reflect the amount of your withdrawal the previous year. You can also transfer your TFSA assets to your spouse or common-law partner upon death without any impact on the survivor's existing contribution room.

### **Eligible investments**

Most investments that can currently be held in an RRSP will also be eligible for your TFSA, including certain savings deposits, GICs, mutual funds, stocks and bonds.

### **Investment income**

Although TFSA contributions cannot be deducted from your income tax return, and any earned income or capital gain is not taxed. Money you take out of your TFSA does not affect federal income-tested benefits and credits like Old Age Security, the Goods and Services Tax Credit and the Canada Child Tax Benefit. It also offers income-splitting opportunities and the ability to minimize social benefit clawbacks.

**In light of the recent market correction, not only will the TFSA be an incredible opportunity to purchase deeply discounted companies such as the Canadian banks and oil companies in our mutual funds, you may want to consider contributing earlier than usual towards your RRSP for the 2008 tax year.**

*Over...*

**Sources of Contributions to the Tax-Free Savings Account (TFSA)**

- 1.) Savings from a bank account, GIC, Canada Savings Bond, and/or High Interest Savings Account
- 2.) Transfer from an existing non-registered "open account"- investment (assuming minimal tax implications)
- 3.) From a CPP, OAS, and/or RRIF payment (assuming those income streams are not needed for everyday expenses)
- 4.) Pre-authorized monthly contribution plan

### **Strategies to consider using the Tax-Free Savings Account (TFSA)**

#### **Income splitting:**

Contribute on behalf of a spouse, common-law partner, or child over the age of 18, provided they have the eligible TFSA room. They can then redeem at a future date without incurring income in their hands

#### **Old Age Security:**

Shelter investment income which may reduce OAS benefits. Withdrawals from the TFSA are not considered income therefore cannot impact any OAS clawback

#### **Estate Planning:**

TFSA avoids the "deemed disposition rule" upon death therefore there will be no income tax. Yet it may be subject to probate fees if it transfers upon death to a beneficiary other than a spouse or common-law partner.

#### **Retirement Planning:**

##### **Contribute to a RRSP, re-invest the refund in a TFSA**

\*Assumptions: 46% MTB, 6% rate of return, 15 year contribution,  
RRSP annual contribution - \$10,800  
RRSP Refund/TFSA annual contribution - \$5,000  
Total out of pocket over 15 years = \$162,000  
Total RRSP/TFSA value over 15 years = \$367,759

##### **Contribute to a RRSP, re-invest 50/50 in a TFSA and RESP**

\*Assumptions: 46% MTB, 6% rate of return, 15 year contribution,  
RRSP annual contribution - \$10,800  
TFSA/RESP annual contribution - \$2,500 each  
20% Government Grant  
Total out of pocket over 15 years = \$162,000  
Total RRSP/TFSA/RESP value over 15 years = \$379,398

If you have any friends, relatives, or co-workers who would find this information useful, feel free to forward it to them. As always, if you have any questions, please do not hesitate to contact me.

Best regards,



Leo Belmonte BA, CFP, FMA, FCSI, AMP  
Certified Financial Planner