

## The Tax-Free Savings Account- Who should have one?

The Government of Canada has introduced a new investment strategy to help individuals achieve their long-term goals. It is called the Tax-Free Savings Account or TFSA. As of January 1, 2009 any Canadian over the age of 18 is eligible to invest up to \$5,000 per year in a TFSA.

The TFSA can be stocks, bonds and/or mutual funds. Any growth in the account is tax-free and should you withdraw any amount of funding from the TFSA you will not be taxed on it. This feature is what makes the TFSA different from the RRSP.

So who should put money into a TFSA:

- Individuals who have maximized their RRSP contributions for the year.
- Individuals who know they will be needing the funds in the near future for large ticket items such as a car, trip or home renovation.
- Individuals who are required to take money out as a RRIF but do not require the funding to live on.
- Individuals who want to compliment their existing long-term investment strategy tax-free.
- Couples who are looking for additional opportunities to income-split with their partner.

Features of a TFSA are:

- The contribution is not dependant upon your taxable employment income from the previous year.
- The contributions are not income-tax deductible
- There are not age limits on when you must stop contributing.
- There are penalties if you exceed the \$5,000 limit per year.
- Earnings while in the account are tax- exempt.
- Earnings withdrawn from the account are tax-exempt.
- Principal withdrawn from the account is tax-exempt.
- Withdrawals generate new contribution room.

Let's compare this with the RRSP:

- The contributions are deducted from your income when preparing your personal income tax return.
- The maximum age to contribute is 71. At 71 you must wind up your RRSP and purchase a RRIF.
- There are penalties for amounts in excess of your contribution limit as set by the government each year you file your income tax return.
- Earnings while in the account are tax-exempt.
- Earnings withdrawn from the account will be taxed upon withdrawal.

- The principal is taxed upon withdrawal.
- Withdrawals from the account will not generate any new contribution room.

The TFSA limit will be adjusted annually based on inflation and rounded to the nearest \$500 increment.

Each individual situation is unique. Sit down with your financial advisor to discuss the best options for you and your investments. In order for us to be given more, it is important for us to be good stewards of what has already been given to us.