

# **Tax-Free Savings Account**

## **An Introduction to the new TFSA**

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January 2009



# Tax-free investment income

- TFSA is a new account type that allows investors to earn tax-free investment income
- The federal government introduced it as part of the 2008 budget

***The most important new savings tool offered by the federal government in over 50 years.***

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of November 2008. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice.

\*In Quebec, advisor refers to a financial security advisor for individual insurance and segregated fund policies; and to an advisor in group insurance/annuity plans for group products.

# TFSA at a glance

- Contribution room begins to accumulate Jan. 1, 2009
- Contributions are not tax deductible
- Income, losses, and gains are not included in taxable income
- Withdrawals not subject to tax

# General TFSA eligibility

- Canadian residents only
- Age 18 or older with a social insurance number
- May have more than one TFSA - the maximum allowable contribution amount (\$5,000) applies to the total of all plans

# Non-residents

- New TFSA policies cannot be opened by non-residents
- Clients who leave Canada permanently can retain their existing TFSA; upon making withdrawals, withholding taxes will not be applicable
- Interest income and capital gains from the TFSA may be taxable in the client's new country of residence
- Non-residents cannot continue to make additional contributions to their existing TFSA; contributions can begin again once the client resumes residency in Canada
- Withdrawals made while the client is a non-resident will be added back to unused contribution room in the following year

# Contribution room

- 2009 contribution limit is \$5,000
- TFSA contribution room is not based on earned income
- Annual limit indexed to inflation, rounded to the nearest \$500
- Unused contribution room carried forward until death
- Withdrawals increase contribution room in the following year
- One per cent per month penalty on contributions in excess of contribution room

# Contribution room example

2009	Annual contribution room	\$5,000
	<u>Contribution</u>	<u>-\$2,000</u>
	Amount to carry forward	\$3,000

2010	Annual contribution room	\$5,000
	<u>Carry forward from 2009</u>	<u>+\$3,000</u>
	Amount to carry forward	\$8,000
	<i>Withdraws \$1,000 later in the year</i>	

2011	Annual contribution room	\$5,000
	Carry forward from 2010	+\$8,000
	<u>Withdrawal from 2010</u>	<u>+\$1,000</u>
	Available contribution room	\$14,000

# Withdrawals

- Can be made at any time and for any purpose
- Are not included in taxable income
- Do not affect eligibility for federal income-tested benefits and credits such as Canada Child Tax Benefit, Working Income Tax Benefit, Goods and Services Tax (GST) credit and Old Age Security Benefits
- Increase contribution room in the following year

# Upon death

- On death there is no income inclusion to the deceased investor
- If a spouse or common-law partner is named as successor account holder, the plan will simply continue as a TFSA and remain tax free
- Otherwise, the proceeds of the plan will be paid out to the beneficiary or estate, and any growth in value after the date of death would be taxable to the beneficiary or estate
- A surviving spouse or common-law partner who was not named as successor holder, but receives proceeds in this manner may make a contribution to their own TFSA (up to the value of the account at the time of death), without affecting their own contribution room, provided certain conditions are met

# Other rules

- Interest on money borrowed to invest in a TFSA is not tax deductible
- TFSA assets can be used as security for a loan
- TFSA transfers allowed upon marriage/partnership break-down
- Money can be given to a spouse/partner for contribution to their own TFSA without income attribution as long as the investment stays in the TFSA

# Who benefits most from a TFSA?

Two demographic groups most likely to open a TFSA:

- Higher-income households
- Families

Results of the Harris/Decima survey (May 2008)

# TFSA vs. non-registered investments Example

Assumes four per cent return, interest income

Years invested	TFSA account value	Non-registered account value (after tax)	Potential tax savings
5	\$27,623	\$26,482	\$1,141
10	\$61,231	\$56,345	\$4,886
15	\$102,120	\$90,323	\$11,797
20	\$151,686	\$129,305	\$22,563

Assumes seven per cent return, capital gains

Years invested	TFSA account value	Non-registered account value (after tax)	Potential tax savings
5	\$29,743	\$28,708	\$1,035
10	\$71,459	\$66,776	\$4,683
15	\$129,968	\$117,971	\$11,997
20	\$212,030	\$187,580	\$24,451

# TFSA in Summary

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**Thank You**



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