

The New Tax-Free Savings Account (TFSA)

Starting in January, 2009, investors can begin to contribute money into a new registered savings vehicle called the Tax-Free Savings Account.

Similar to RRSPs, income will grow tax-free within the plan. However, contributions are non-deductible. Since investments are made with after tax dollars, there is no tax withheld on withdrawals.

RRSP vs TFSA

If your tax bracket will be lower in the future than it is in the present, and you have contribution room left in your RRSP, it would be beneficial to top up your RRSP over investing in a TFSA. You may choose to contribute to both plans, but most effective if you have contributed the maximum amount to your RRSP and have additional funds with which you wish to invest.

Eligibility

To be eligible to contribute to a TFSA an individual must meet the following criteria:

- be 18 years or older
- be a Canadian resident
- have a valid Social Insurance Number (SIN)

Contributions

- you may invest up to \$5,000 annually. This limit will be indexed to inflation in \$500 increments
- any unused contribution room will be carried forward indefinitely to subsequent years
- any withdrawals from the account will restore your contribution room by an amount equal to the amount of withdrawal
- all excess contributions will be subject to a 1% penalty per month

TFSAs and your spouse

- you may contribute to your spouse's TFSA, subject to their contribution room. No attribution rules apply
- upon death, the assets in a TFSA can be transferred to a TFSA of a spouse or common-law partner with no affect on the transferee's contribution room
- on the breakdown of a marriage or common-law partnership, any TFSA amount may be transferred from the TFSA of one spouse to the other, such transfers do not restore the contribution room of the transferor and it does not affect the contribution room of the transferee.

Other Characteristics

Since withdrawals are tax-free, any income you withdraw from a TFSA does not affect income-tested benefits such as the GST credit, the Guaranteed Income Supplement (GIS) or Old Age Security (OAS).

You may use TFSAs as loan collateral.