



WEALTH MANAGEMENT



Tax Free Savings Account (TFSA's) ~ an additional way to save.

A TFSA is not simply an alternative to your bank savings account. It is an investment account, a financial vehicle similar in some ways to your RRSP, but very different in other ways. Together, they can effectively provide you with investment and tax planning flexibility.

- Eligible to all Canadian residents age 18 or older.
- Each year an individual can contribute up to an annual limit of \$5,000 (indexed to inflation, to the nearest \$500). Excess contributions are penalized at 1% per month.
- TFSA holders can carry forward contribution room indefinitely. Any withdrawal is fully recovered as additional contribution room the following year.
- Withdrawals may be taken out at any time.
- TFSA's can hold the same assortment of eligible investments as registered plans.

Tax Features

1. TFSA's are funded using after tax dollars.
2. Growth in the account is tax-sheltered.
3. All withdrawals are free of income tax on generated profits. Conversely, you cannot claim a capital loss from investments held in a TFSA account to offset capital gains realized in a non-registered account.
4. Withdrawals and/or Investment income earned in a TFSA will have no effect on tax credits or trigger a clawback of government benefits, such as: OAS, GIS, GST tax credit, age credit, and the Canada child tax benefit.
5. Financial situations have illustrated that given the same rate of growth within each investment vehicle, a TFSA is favoured when there is a lower income tax rate in the year you contribute and a higher income tax rate in the year you withdraw. A RRSP is favoured when the tax rate situation is reversed.
6. You can provide funds freely to a spouse's TFSA without income attribution rules applying since there will be no taxable income to attribute to the contributing spouse.
7. There is no opportunity to deduct interest payments on a loan to fund a TFSA.

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Your Personal Wealth Manager – helping you make smart decisions about your money

Tax Features – continued

8. TFSA assets can be used as loan collateral or for a secured line of credit. This will be more advantageous as the TFSA builds in future years.
9. No specific plan for depletion, unlike the rules pertaining to a RRIF.
10. You may roll the TFSA to a surviving spouse or partner's TFSA without affecting their contribution room.
11. If left to another individual, future income and gains will be taxable, but the assets in the TFSA will remain tax-free until the end of the year following the TFSA account holders' death. At this point, and if the account is still open, the assets will become taxable.
12. Unlike registered plans, currently you cannot make a beneficiary designation for a TFSA. This means that the market value of the TFSA must flow through your estate and it will be subject to probate fees.

TFSA Benefits for Financial Planning

13. Provides additional tax sheltered contribution room.
14. Individuals who are over the age of 71, or with no earned income, or those who have small RSP contribution limits can use a TFSA as a method to save on a tax-free basis.
15. TFSA's provide a purpose for establishing an emergency fund in a high interest savings account.
16. TFSA's complement an RESP for individuals (beneficiaries) after the age of 17 when the government grant is no longer provided.
17. Complements an RRSP without the need to deplete or convert to an income vehicle. They work together to increase tax-advantaged savings, especially if you do not have any RRSP contribution room left.
18. Due to the benefit of tax free compounding, it is beneficial to open a TFSA as early as possible. If you are interested to do this, or you require more information, please contact our office.

The foregoing is for general information purposes only and is the opinion of the writer. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call Peter Watson Investments to discuss your particular circumstances.

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