

Investor Insights

Tax-Free Savings Account

The Government wants you to save! So it's introduced a new Tax-Free Savings Account (TFSA). Starting January 2009 you can use it to save for whatever you want. Here's the big bonus — you don't pay tax on the income earned and growth of your money — even when you withdraw it. And you can withdraw it any time for any purpose.

There's a lot you'll like about the Tax-Free Savings Account, including its flexibility.

There's a Lot to Like

- **Use it to save for anything** — home renos, a car, education, an emergency fund, even retirement. The choice is yours
- **Money grows tax-free** within the plan so you don't pay tax on capital gains, dividends and interest income
- **Withdraw money any time, tax-free**
- **\$5,000 is the maximum annual contribution** for everyone beginning in 2009. This will be increased periodically to keep pace with inflation
- **Unused contribution room is carried forward** to future years and reported on your Canada Revenue Agency Notice of Assessment
- **Amounts withdrawn are added** to next year's contribution limit
- **Choose a variety of investments**, all the same ones you'd hold in an RRSP
- **Contributions are allowed to a spouse's** TFSA based on their available contribution room
- **No requirement to convert** or withdraw money at age 71
- **Income-tested benefits or credits aren't affected by withdrawals or income earned.** This includes OAS, GIS, the Canada Child Tax Benefit, the GST credit and disability benefits
- **Money can transfer tax-free** upon death to a spouse.

Only a Few Drawbacks

- **Contributions are not tax deductible**
- **Claiming a capital loss isn't allowed** if your account value drops
- **Interest isn't deductible** on money you borrow to contribute.

Is It Right For you?

The Tax-Free Savings Account is for Canadian residents 18 years or older who have a SIN number and have filed a tax return, even if they don't earn an income or are retired. If you fit these criteria the TFSA is right for you.



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Call me to open your TFSA today

Smart Ways to Use a TFSA

For Everyone

- **If you want easy tax-free access to money**, use a TFSA. You'll be able to withdraw funds tax-free at any time and re-contribute the same amount in the future. Keep your RRSP for long-term retirement saving. The tax you pay on RRSP withdrawals is a barrier to dipping into your nest egg early, and that's a good thing. Use your TFSA for short-term savings
- **When you have interest-bearing investments**, like GICs or bonds, put them in a TFSA so interest income you earn isn't taxed
- **For high risk/high return investments** a TFSA is a good alternative to an RRSP or non-registered account because if your \$5K grows to \$50K it could be withdrawn tax-free. The downside — you can't claim a capital loss if your investments drop in value
- **When applying for a loan**, your TFSA qualifies as collateral.

Just Starting Out in Life

- **If your income will likely increase in future years**, then start investing in a TFSA before an RRSP. You'll accumulate RRSP contribution room you can eventually use when your income is higher and when claiming the RRSP tax deduction has a bigger impact.

Saving for Retirement

- **If you're retiring in 10-20 years and haven't saved anything**, using a TFSA can complement your RRSP so you can grow your nest egg faster
- **If you've maxed out your RRSP contribution**, put additional savings in a TFSA before a non-registered plan so your money can grow tax-free
- **If you want to reduce taxable income in retirement**, use a TFSA in addition to your RRSP. When you convert your RRSP into a RRIF at age 71, withdrawals are taxed, so the more RRIF money you withdraw the higher your marginal tax rate. But by also withdrawing funds tax-free from your TFSA you can reduce your RRIF withdrawals, potentially lowering your marginal tax rate.

Already Retired

- **If you receive income-tested benefits like Old Age Security** use a TFSA to reduce potential clawbacks. Interest earned in a TFSA and withdrawals don't affect your benefits
- **If you have to take pension payments or RRIF/LIF withdrawals** which you don't need, move them to a TFSA where they can grow tax-free until you need them later
- **When you want money to transfer to your spouse or common law partner tax-free** upon death, use a TFSA.

The TFSA Advantage

John makes \$82,000 a year and saves \$416 a month (that's \$5,000 a year) for 10 years in a diversified portfolio that returns 5.0% a year made of 30% dividends, 40% interest, and 30% capital gains. If his portfolio is held in a TFSA he'll save \$4,545 more than if his portfolio was held in a taxable account.



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