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TAX-FREE SAVINGS ACCOUNTS – COMING JANUARY 1, 2009

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Starting January 1, 2009, Canadian residents who are 18 years of age or older will be able to earn tax-free investment income within a tax-free savings account (TFSA) during their lifetime. In essence, a TFSA is the mirror image of the RRSP. Both let you accumulate savings tax-free. At contribution time, an RRSP gives you an up-front tax deduction that a TFSA does not. At withdrawal time, an RRSP (or registered retirement income fund) withdrawal is taxable, while withdrawals from TFSAs are tax free.



A TFSA is ideal if you have a non-registered investment portfolio. It allows you to turn taxable income into tax-free income for life and enables you to maximize your investment growth.

Here are some of the things you should know about TFSAs:

- Canadian residents aged 18 and older are eligible to open a TFSA.
- The TFSA dollar limit is \$5,000 in 2009, and will be indexed to inflation and rounded to the nearest \$500 in later years.
- Unused TFSA contribution room can be carried forward to later years.
- The total of TFSA withdrawals in a calendar year is added to the TFSA contribution room for the next calendar year.
- The income generated in a TFSA, such as investment income and capital gains, is tax-free when earned and even afterwards when it is withdrawn.
- Interest paid or owed on money borrowed to invest in a TFSA is not tax-deductible.
- Neither income earned in your TFSA, nor withdrawals, will affect your eligibility for federal income-tested benefits like the Canada Child Tax Benefit, the Guaranteed Income Supplement, employment insurance benefits, or the age credit, etc.
- Most of the investments eligible for RRSPs are TFSA-eligible as well, including GICs, mutual funds, stocks and bonds, among others.

- Similar to an RRSP, you will be charged by the Canada Revenue Agency (CRA) on over-contributions at a rate of 1% per month on any excess contribution amount.
- The CRA will track your TFSA contribution room. The CRA intends to report this amount to individuals on their Notice of Assessment and through the “My Account” function on their web site.
- You will be able to contribute to a spouse’s TFSA without affecting their contribution room, and the income attribution rules will not apply to income earned within that TFSA.
- TFSA assets can be used as security for a loan.
- TFSAs can only be opened by Canadian residents; however, if you open a TFSA and subsequently become a non-resident, you will be able to maintain your TFSA account and will not be taxed on any earnings or withdrawals in the account. However, you will not be allowed to contribute additional funds and no contribution room will accrue for the years in which you are a non-resident.
- Fees paid for the opening or maintenance of a TFSA are not deductible for income tax purposes.
- Upon your death, there is an option to have your TFSA assets transferred to your surviving spouse or common-law partner without any impact on their existing contribution room. The surviving spouse must designate the transferred amount as an exempt contribution by filing a prescribed form with the CRA within 30 days of the transfer. In addition, to be eligible for this rollover provision, the transfer must be made by the end of the year after the year of death of the deceased spouse.

November 2008

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