

With the new Tax-Free Savings Account, you pay no taxes on investment income – ever!

Beginning on January 2, 2009, a registered savings account called a Tax-Free Savings Account (TFSA) provides residents age 18 and over from all income levels with a unique savings vehicle.

The TFSA is the most significant personal savings vehicle since the introduction of Registered Retirement Savings Plans (RRSPs) in the 1950s.

You can open a TFSA at most Canadian financial institutions such as banks, trust companies, life insurance companies and brokerages. In fact, you can hold more than one TFSA with a number of financial institutions but the combined total of the contributions must be within your contribution limit in that year.

Your savings goals can be long-term such as retirement or more short-term such as buying a new car, taking a vacation or renovating your house.

Though there is no tax deduction for contributions as with an RRSP, the major benefit of a TFSA is that your money grows tax-free. What that means is you won't pay taxes on any interest, dividends

or capital gains earned. In addition, when you make a withdrawal, you won't pay any taxes on the amount as you would with an RRSP.

Contributions

You can contribute up to \$5,000 per year, regardless of your income level, to your TFSA. This amount is scheduled to increase in the future to take inflation into account. This limit is in addition to any RRSP contribution limit you may have.


Excess contributions are subject to tax of 1% per month for each month the excess remains in the account.

Contributions to your TFSA are made on an "after-tax" basis so are not deductible for income tax purposes.

Any unused contribution room from previous years is carried forward and added to the contribution room for the current year. There is no limit on the number of years unused contribution room can be carried forward.

Contribution Room Example

2009	You may contribute up to \$5,000 in 2009	\$5,000
	You decide to only contribute \$3,000	- 3,000
	That leaves \$2,000 to be carried forward to 2010	\$2,000
2010	Your <u>total</u> contribution room is \$7,000 in 2010	\$5,000
	(\$5,000 for 2010 plus \$2,000 carried forward from 2009)	+ 2,000
		\$7,000



Because there are no income attribution rules, you may contribute to your spouse's or common-law partner's TFSA depending on your spouse's or common-law partner's available room.

If you become a non-resident, you are able to maintain your TFSA and you won't be taxed on any earnings in the account or on withdrawals. However, you won't be allowed to contribute to your TFSA and no contribution room will accrue for any year in which you are a non-resident.

The Canada Revenue Agency (CRA) determines TFSA contribution room for each eligible individual who files an annual T1 individual income tax return.

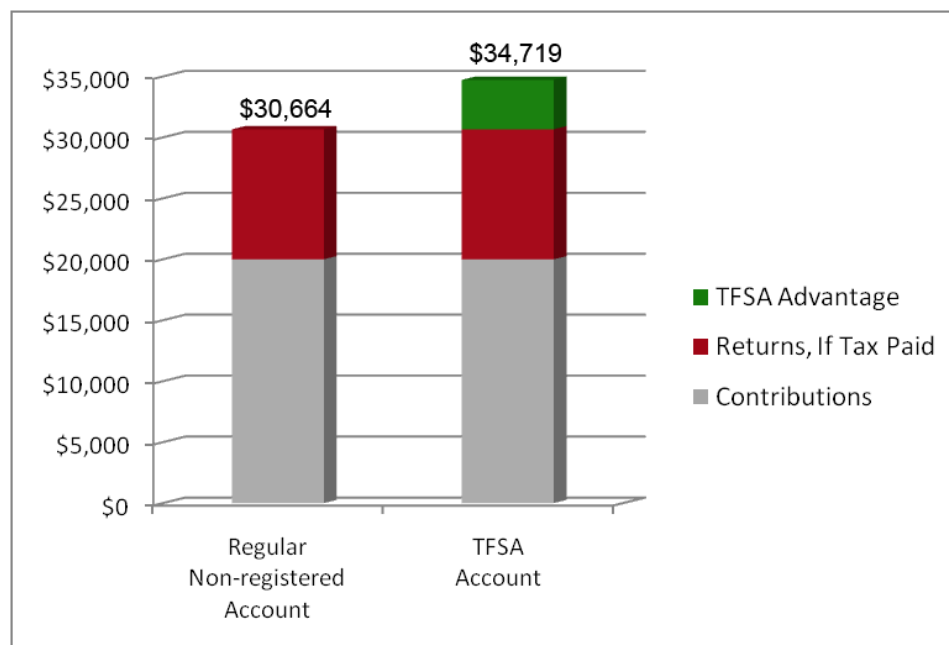
You aren't required to have earned income to contribute. If you haven't filed returns for prior years, you are permitted to establish your entitlement to contribution room by filing a return for those years or by other means acceptable to the CRA.

Tax Benefits

Investments held in your TFSA grow tax-free so you won't pay taxes on any interest, dividends or capital gains earned, even when withdrawn.

Regular Non-registered Account Versus TFSA Account

This illustration shows how savings in a non-registered account would differ from a TFSA account, assuming an annual contribution of \$1,000 is made while earning 5% per year. The account balances after 20 years would be \$30,644 for the non-registered account and \$34,719 for the TFSA account.



Note: The illustration computes tax payable on the non-registered account for a middle-income taxpayer whose returns are 50% interest, 25% capital gains and 25% dividends.

Withdrawals

You may withdraw funds from your TFSA at any time, for any reason. Withdrawals aren't subject to tax or considered taxable income.

Federal income-tested benefits and income tax credits are not affected by any TFSA withdrawals. Withdrawals don't reduce benefits such as:

- Employment Insurance benefits (EI)
- Canada Child Tax Benefit
- Old Age Security (OAS)
- Guaranteed Income Supplement (GIS)

An added bonus is that amounts withdrawn can be re-contributed back to your TFSA at a later date so you won't lose your contribution room. The only restriction is that you need to wait until the next year to re-contribute the money.

Full Flexibility to Withdraw and Re-contribute

Marie, for example, withdraws \$10,000 of her TFSA savings tax-free.

Two years later, she re-contributes the \$10,000 to her TFSA without reducing her contribution room available.

Investments

Your TFSA is subject to similar qualified investment rules as an RRSP.

Eligible investments include:

- Certain savings accounts
- GICs
- Stocks
- Bonds
- Mutual funds

If you borrow to invest in a TFSA, the interest on the loan, as with an RRSP, isn't deductible for tax purposes since the investment income earned is not taxable.

Retirement

Your TFSA can complement your retirement plans.

It can provide more flexibility in retirement since you are able to choose which source of income to use during retirement. Keep in mind that there are no restrictions on TFSA withdrawals and income-tested benefits such as OAS and GIS won't be affected.

Unlike your registered retirement savings plan such as an RRSP, individuals over age 71 can contribute to a TFSA. If you don't immediately need your RRIF mandatory withdrawals, you may consider contributing them to a TFSA for continued growth.

Upon Death

Your TFSA assets can be transferred to your spouse or common-law partner upon your death without any impact on their existing contribution room.