

TAX-FREE SAVINGS ACCOUNT (TFSA)

This new savings vehicle is the most advantageous tax-wise since the arrival of the registered retirement savings plan (RRSP). It allows your clients to set money aside and let it grow free from tax during their entire lifetime.



PROGRAM SUMMARY for exclusive use by financial advisors

When

Program available as of January 1, 2009

Who

- › Canadian residents
- › Age 18 and older
- › SIN holders

Contribution room

- › \$5,000 a year
- › The amount will be indexed to the inflation rate and rounded off to the nearest \$500 annually.

Unused contributions

Unused contributions from the preceding year will be added to the current year's limits indefinitely.

Contribution deductions and tax on withdrawals

The TFSA is not tax deductible (only investment income earned in the account will not be taxed).

Withdrawals

- › No restrictions for withdrawal amounts
- › No limits for how withdrawals are used
- › Withdrawals are not taxable.

Eligible investments

The same types of investments eligible for an RRSP – daily interest funds, guaranteed interest funds and segregated funds offered by Industrial Alliance

Eligibility for income-based benefits

Neither withdrawals from nor contributions to a TFSA affect eligibility for income-based benefits (such as OAS, the GSB, the Canada Child Tax Benefit or the GST) or credits granted under income tax legislation.

Contribution room

- › The CRA determines the contribution limits to a TFSA (according to the information supplied by the issuers) for each eligible person who produces an annual personal income tax return (T1).
- › Individuals who did not complete returns for past years (e.g., because they did not have income tax to pay) would be permitted to establish contribution limits by producing a return for these years or by using other methods deemed acceptable by the CRA.

Excess contributions

- › Excess contributions are subject to the same penalty as that for an RRSP – 1% a month – starting with the first dollar of excess contribution.
- › No margin

Collateral assignment

- › Unlike an RRSP, it's possible to assign a contract as collateral.
- › Interest paid on the loan is not tax deductible.

Income-splitting tools

Individuals can donate money to their spouse, who can use the funds to contribute to their own TFSA. The attribution rules don't apply. Therefore, the investment income is not attributed to the person who made the donation.

TFSA

End of marriage or civil union

- › A TFSA is not included in the divisible assets of an estate in the event of divorce.
- › However, if the marriage is under the regime of partnership of acquests, the TFSA is part of the household assets and is subject to division.
- › It's possible to transfer a sum directly from a spouse's or common law spouse's TFSA to the TFSA of another person. Under these circumstances, the transfer does not affect the contribution amounts for these two people.

Death

- › In the event of death, assets held within a TFSA (and not the TFSA itself) can be transferred to any legatee without tax consequences.
- › However, income generated from the date of death must be included in the estate tax return.
- › Only a spouse can receive a TFSA in its entirety, without affecting their own contribution rights.

End of Canadian residence

- › Termination of Canadian residence does not result in the dissolution of a TFSA.
- › All tax advantages are retained.
- › However, an individual accumulates no contribution rights while he is a non-resident.

RRSP/TFSA

- › No annual taxation for income generated in the contract
- › Interest paid on amounts borrowed to contribute to an RRSP or a TFSA are not tax deductible.

	TFSA	RRSP
Registration	Registered	Registered
Age for eligibility	18	None
Age limit to contribute	None	71
Annual contribution limit	\$5,000 (regardless of earned income)	18% of earned income, less the pension adjustment (maximum \$20,000 for 2008/\$21,000 for 2009)
Contribution deduction	No	Yes
Taxation on withdrawal	No	Yes, fully
Withdrawals and contribution room	Contribution room can be recovered in full when sums are withdrawn	All contribution room is lost when sums are withdrawn
Unused contributions	Carried forward and accumulated	Carried forward and accumulated
Excess contributions	Penalty of 1%/month	Penalty of 1%/month \$2,000 excess contribution allowed
Eligible investments	Daily interest funds, guaranteed interest funds, segregated funds	Daily interest funds, guaranteed interest funds, segregated funds
Eligibility for government programs	As withdrawals are not added to income, they do not change eligibility	Withdrawals, which are added to income, can change eligibility
Collateral assignment	Can be assigned as collateral	Cannot be assigned