



# Clipboard

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## Wow!

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## Tax Free Savings Accounts (TFSA)

2008 has been quite a year in the financial markets. The TSX Composite rose to an all time high in June, and then finished the year down 35%. In the midst of market volatility it can be a challenge for many investors to stay true to a long-term financial plan. It is natural to be concerned about the value of your assets, and apprehensive about what the future will bring. It is important to remember, though, that market declines are normal in the investment world and are typically followed by even greater gains in the long run.

Since not all investments provide the same returns at the same time, or respond to events in the same way, a well-diversified portfolio geared towards your financial goals and risk tolerance is still the best investment strategy. In other words, all your eggs should not be in the same basket.

History has demonstrated that markets tend to recover quickly from their low points. History has also shown that those who remain committed to their long-term investment goals despite short-term volatility will ultimately benefit.



In January 2009, the new Tax Free Savings Account (TFSA) became available. It is a general-purpose tax-efficient saving vehicle that complements Registered Retirement Savings Plans (RRSP) and Registered Education Savings Plans (RESP). Qualifying persons who file income tax returns will be advised annually by the Canada Revenue Agency (CRA) as to their future contribution limit. Accounts are available to Canadian residents 18 years or older.

I'll discuss some of the highlights of this new account:

- Contribution room
- Investment products
- Investment growth
- Tax advantage

The initial annual contribution limit is \$5,000, which will be indexed annually and rounded to the closest \$500. Unused contribution room can be carried forward indefinitely. Contribution room is not lost when funds are withdrawn from the account, as would be the case with an RRSP.

# Tax Free Savings Accounts (TFSA) continued

Let's look at an example.

Assumptions:

- Annual limit of \$5,000 for years 2009, 2010, and 2011
- Accumulated deposits—\$10,000 (\$5,000 in 2009 + \$5,000 in 2010)
- Account balance November 2010—\$11,000 (assuming \$1,000 gain)
- Withdrawal December 2010—\$11,000

The 2011 contribution limit would then be \$16,000 (\$5,000 for 2011 + replacement of the \$11,000 withdrawn in the previous year).

Investment products (cash, Guaranteed Investment Certificates (GICs), bonds, investment funds, and publicly traded securities) that qualify for RRSPs also qualify for TFSAs.

Investments can be purchased or transferred “in kind” (retaining the same form) from an existing account into a TFSA. When transferring “in kind,” a disposition is deemed to have occurred, potentially triggering capital gains. The accrued capital gain is immediately triggered and must be included in income. However, when transferring “in kind,” the accrued capital loss is denied. If there is an accrued capital loss, it is suggested the investment be sold to capture the capital loss, and then the investment repurchased following CRA's required waiting period—usually 30 days.

Because investment growth (interest, dividends, and/or capital gains) in the TFSA is not considered taxable income, the growth

from these investments will not cause an increase in your taxable income. Lower taxable income is beneficial when qualifying for income-tested benefits and tax credits, such as the Guaranteed Income Supplement (GIS), Old Age Security (OAS), Child Tax Credit, or GST.

The growth is tax-free at time of death, and you can leave it to whomever you wish. Continued tax-free status can be maintained after death by naming your spouse as the successor account holder, or the account could be rolled over to your spouse without affecting the surviving spouse's contribution room.

For maximum benefit results, a financial advisor can help incorporate a TFSA into your financial plan.

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*Disclaimer: Investors should read the fund's Prospectus and/or Information Folder before investing. Mutual and segregated funds are not guaranteed; their values change frequently and past performance may not be repeated. Segregated funds have guaranteed minimum values at maturity or death. This article is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting, or tax advice. Please consult an appropriate professional regarding your particular circumstances.*



The enclosed brochure provides more details on the Tax Free Savings Account (TFSA) and compares it to a Registered Retirement Savings Plan (RRSP).

For more information on these or other topics, visit my web site at

[www.checkwithjoan.com](http://www.checkwithjoan.com)