

# OUTLOOK

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## Enhancing your savings strategy with a TFSA

On January 1<sup>st</sup>, 2009, the federal government will be introducing a new tool to help you make better use of the money you're putting aside for your projects.

As a matter of fact, the **Tax-Free Savings Account (TFSA)** will offer you a whole new array of tax benefits to help you save throughout your life. This is the single most important personal savings vehicle since the introduction of RRSPs. Find out how it can work for you!

### What's a TFSA?

The TFSA is a savings account into which anyone 18 years of age and older can contribute \$5,000 a year tax-free. The types of eligible investments available will be similar to RRSPs, but the gains you set aside for savings will be taxed differently.

The money you contribute to your TFSA, unlike your RRSP contributions, will not be tax deductible. However, the unique advantage of the TFSA is that you can use the money you put into it as you wish, and tax-free. In other words, you'll be free to take the money out of your account, including capital gains, without having to pay taxes on the money earned in the TFSA. Plus, you'll have the option of putting the money back into your account however and whenever you please, or not at all, unlike RRSP funds under the Home Buyers Plan (HBP), for example. And the amount of your withdrawals will be added to your contribution limit for the following year.

### Saving for a lifetime

Compared to RRSPs, which are tailor-made to help you save for retirement, the TFSA is there to help with all the things you want to do before and during retirement. How? Aside from the flexibility and tax advantages the TFSA will offer you when the time comes to use your savings, the withdrawals you make won't reduce the federal income-tested benefits or credits to which you're entitled. This means that you'll have the money you need for those special projects or for unexpected expenses without affecting your Old Age Security benefits, for example, or your Canada Child Tax Benefit. And, in contrast to the rules in effect for RRSPs, you can continue contributing to your TFSA after age 71.



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You can contribute to your spouse's TFSA if he or she hasn't reached their contribution limit. However, any money you invest in your partner's account is considered your partner's money from a tax standpoint. Lastly, given that you can carry forward any unused contribution room to future years, you'll also have an attractive tax shelter for any significant amounts of money you may receive by way of a bonus or an inheritance, for instance.

## TFSA or RRSP?

Is the TFSA replacing the RRSP? Not at all. They're complementary tools that most people will probably want to use together, depending on their needs. The advantages you could draw from each one of these plans will depend on the difference between your taxation rate when you make the contributions and the one you are subject to when you make withdrawals.

Your financial representative can help you develop a strategy tailored to your particular situation that lets you maximize both options.

## Highlights<sup>1</sup>

	TFSA	RRSP
Deadline	None	The year you turn 71 years of age
Contribution limit	\$5,000 for 2009 and then indexed by increments of \$500 based on the CPI*	\$21,000 for 2009 and then indexed based on average industrial wage growth
Contribution margin	Equal to the contribution limit	18% of income, up to the contribution limit
Contributions are deductible from taxable income	No	Yes
Withdrawals are taxable	No	Yes
Investment income is taxable in the plan	No	No
Withdrawals have an impact on taxable income (social programs)	No	Are added to taxable income
Withdrawals create contribution room	Yes, equal to the amount of the withdrawals	No
Contributions to spouse's account	Yes, but contributions are attributed to the spouse	Yes
Assets taxed upon death	No (for the value as of the date of death)	Yes, unless there is a rollover

\* Consumer Price Index.

<sup>1</sup> The information in this table was derived and adapted from information regarding the 2008 budget supplied by the Finance Minister of Canada.

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