Tax-Free Savings Account (TFSA)

– A Savings Plan for All Canadians for Their Future

The Government proposes to reduce the taxation of savings through the introduction of a Tax-Free Savings Account (TFSA)—

How the Tax-Free Savings Account Will Work

- Starting in 2009, any individual (other than a trust) who is resident in Canada and 18 years of age or older will be able to accumulate annual contribution room of $5,000 each year. Certain provinces legislate that an individual may have to be 19 in order to be eligible to establish a TFSA and save within a TFSA account; however, their contribution room will begin to accumulate at age 18.
- Contributions will not be deductible.
- Capital gains and other investment income earned in a TFSA will not be taxed.
- Withdrawals will be tax-free.
- Neither income earned within a TFSA nor withdrawals from it will affect eligibility for federal income-tested benefits and credits.
- Withdrawals will create contribution room for future savings.
- Contributions to a spouse's or common-law partner's TFSA will be allowed, and TFSA assets will be transferable to the TFSA of a spouse or common-law partner upon death.
- Qualified investments include all arm's-length Registered Retirement Savings Plan (RRSP) qualified investments.
- The $5,000 annual contribution limit will be indexed to inflation in $500 increments.

Why should you open a TFSA?

- The TFSA will provide a flexible savings vehicle for Canadians.
- Since not everyone is able to save each year, individuals who are unable to contribute $5,000 in a year will be able to carry forward unused contribution room to future years.

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- The TFSA complements existing savings plans such as registered pension plans, RRSPs, Registered Education Savings Plans (RESPs) and Registered Disability Savings Plan.

Full Flexibility to Withdraw and Re-Contribute

- In addition, in recognition of the fact that most people are likely to have multiple savings objectives at the various stages of their lives—e.g. to purchase a car, home or cottage—the full amount of withdrawals may be re-contributed to a TFSA in the future, to ensure that there is no loss in a person's total savings room.

- In recognition of the fact that couples often make their savings decisions and plan for their financial security on a joint basis, individuals may contribute to the TFSA of their spouse or common-law partner, subject to the spouse or partner's available contribution room.

Saving in a TFSA to Meet Unforeseen Needs

- Canadians will also benefit by being able to use the TFSA to start saving early for a range of needs they may have in the future.

- Many Canadians may prefer to use a TFSA to save for pre-retirement needs given the absence of tax consequences on withdrawals and the ability to avoid the use of RRSP room for non-retirement savings needs.

A Savings Account for Post-Retirement Needs

- The TFSA will also provide seniors with a savings vehicle to meet any ongoing savings needs, something to which they have only limited access once they are over the age of 71 and are required to begin drawing down their retirement savings. Based on current savings patterns, seniors are expected to receive one-half of the total benefits provided by the TFSA.

No Impact on Income-Tested Benefits

- Tax Free Savings Accounts will not affect your eligibility for federal income-tested benefits, such as the Canada Child Tax Benefit and the Guaranteed Income Supplement.

- Money you take out of your Tax-Free Savings Account will not affect federal income-tested benefits and credits, so you're not penalized for saving

The Tax Relief Provided by a TFSA Will Grow in the Future

- This amount will increase in the future to take inflation into account.

More details on the TFSA and its design features are provided in the link below:

http://www.cra-arc.gc.ca/gncy/bdgt/2008/txfr-eng.html

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