

Tax Advisory Bulletin

Date: January, 2009

Re: The Tax-Free Savings Account (TFSA)

A new investment product, the TFSA, becomes effective in 2009. The TFSA offers all kinds of flexibility and an excellent opportunity to earn tax-free investment income.

Everyone resident in Canada and 18 years of age or older can contribute up to \$5,000 per year to a TFSA. Unlike an RRSP, the contributions are not tax deductible. However, investment earnings accumulate tax-free in the account, and can be withdrawn from the plan without tax or penalty at any time.

The basic rules of the TFSA are as follows:

- The TFSA allows you to make up to a \$5,000 contribution each year.
- Unlike an RRSP, the contribution is not tax deductible.
- The earnings in the TFSA, including investment income and capital gains, are not taxable and therefore accumulate tax-free.
- Investments in the TFSA can remain there indefinitely. Unlike an RRSP, there is no requirement to collapse a TFSA at a certain age. On death, the future earnings of the plan (but not the value of the plan) become taxable, unless the sole designated beneficiary of the plan is a surviving spouse.
- A withdrawal from the plan can be made at any time without restriction. Upon withdrawal, neither the original contributions nor the accumulated earnings are taxable.
- The \$5,000 annual contribution room is fully cumulative. So, if the full \$5,000 contribution is not made in a particular year, the shortfall is added to the room for the following year. If a withdrawal is made from the plan, the amount withdrawn is added to your unused TFSA room so that you can re-contribute funds at a later date.
- Eligible investments for a TFSA are the same as those for an RRSP.
- Penalties, at the rate of 1% per month, apply to excess contributions.
- The attribution rules do not apply in connection with income earned in a TFSA. So, one spouse can contribute funds to a TFSA for the other spouse. All earnings will accumulate tax-free without attribution to the transferor spouse. Once the funds are withdrawn from the TFSA, however, the earnings will attribute back to the transferor spouse.
- Losses in the TFSA will never be available to offset income or capital gains outside the TFSA.