Did You Know?

(A publication for the clients and contacts of Gary S. Aslett, Chartered Accountant)

TAX-FREE SAVINGS ACCOUNT

The 2008 federal budget introduced the Tax-Free Savings Account ("**TFSA**") which is planned to be available from investment advisors and financial institutions in 2009. The mechanics of the TFSA are outlined below:

1. **Eligible contributors:** Beginning in 2009, individuals 18 years of age and older will be able to contribute to the plan.

2. **Annual limits:** Individuals will accumulate $5,000.00 of TFSA contribution room each year which will be indexed to inflation. Unused contribution room can be carried forward indefinitely to future years. Also, if you withdraw money from the plan, you can 'recontribute' these amounts as any amounts withdrawn will be added to your contribution room.

3. **Contributions – Income tax rules:** Contributions are <u>not tax-deductible.</u>

4. **Withdrawals – Income tax rules:** Withdrawals of contributions and earnings are <u>not taxable.</u>

5. **Earnings – Income tax rules:** Earnings on contributions are not taxed while in the TFSA or when withdrawn. Also, the income earned will have no impact on certain government benefits which are reduced based on income levels (for example, child tax benefits, GST credits, age credit, Guaranteed Income Supplement, and the claw back of the old age security pension).

6. **Eligible investments:** It is expected that qualified investments will be the same as those for an RRSP. These plans will be attractive for investments which generate interest income which is subject to a higher tax rate than Canadian dividends and capital gains.

7. **Attribution rules:** There are rules in the Income Tax Act which prevent transferring assets to a related party in order to reduce the overall income tax burden on future earnings. These are referred to as the 'attribution rules'. If you give money to your spouse to contribute to their TFSA, the attribution rules will *not* apply to tax the income in your tax return.

8. **Planning – RRSP or TFSA?** RRSP savings will provide a net higher rate of return than the TFSA when the tax rate on RRSP withdrawals is *lower* than the tax rate when the RRSP contribution was made. When calculating your expected tax rate on the RRSP withdrawal, you will need to take into account any possible claw back of your OAS.

9. **Planning – Use of TFSA:** These accounts will be used for short-term savings such as down payments for a home, car, vacation, an upcoming wedding. They will also be used by those who have contributed the maximum amount to their RRSP.

10. **What's next?** Stay tuned as your investment advisor or financial institution prepares to make the TFSA available in the new year. You may want to ask them how soon in the new year you will be able to make your first contribution and if the application forms are available.

Please contact Gary Aslett at 905-465-3313 or gary@aslettca.ca *if you require further information on the above.*

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This information is based on existing legislation or legislation which is expected to be passed into law. Such legislation is subject to change without notice. Readers are advised to obtain specific professional advice before acting on the basis of material contained in this article.

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