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• Tax Free Savings Account

Coming Soon: The Tax Free Savings Account (TFSA) A Great Tax Free Gift from the Government

Undoubtedly, the biggest treat for investors in the 2008 federal budget was the introduction of a new savings vehicle that will allow Canadians to save money, not just for retirement but for any purpose, on a completely tax-exempt basis.

Starting in 2009, Canadians will be able to contribute to a [Tax Free Savings Account \(TFSA\)](#). TFSA is a “flexible, registered general-purpose account that will allow Canadians to earn tax-free investment income.”

Who is Eligible?

Anyone who is at least 18 years old will be allowed to open a TFSA. The only requirement is that the individual have a social insurance number when the account is opened.

How Much Can I Contribute?

The amount you can contribute to a TFSA will be based on your “TFSA contributions room.” Starting in 2009, everyone who is at least 18 years old will begin to accumulate \$5,000 (to be indexed annually, rounded to the nearest \$500) of TFSA contribution room. This TFSA contribution room will be cumulative and will be carried forward indefinitely to future years.

Perhaps the most interesting twist in these rules is that, any amounts withdrawn from your TFSA in a particular year will be automatically added to your TFSA contribution room for the following year. This allows individuals who withdraw TFSA funds to recontribute an equivalent amount in a future year.

How Will TFSAs be Taxed?

The big advantage is that any income and gains on investments held within a TFSA won't be taxed either while inside the TFSA or upon ultimate withdrawal.

TFSA will have no impact on government benefits or credits, such as GIS or OAS, or on the Canada Child Tax Benefit or the Goods and Services Tax Credit.

What Can I Invest In?

A TFSA will be allowed to invest in basically the same broad list of qualified investments currently permitted for RRSPs, including stocks, bonds, mutual funds, etc.

What Happens Upon Death?

The fair market value of the TFSA on the date of death will be received by the estate on a tax-free basis. Individuals will be able to name a surviving spouse or partner as a “successor account holder,” in which case the TFSA will continue to be tax exempt. Alternatively, the assets of a deceased individual's TFSA can be transferred to a surviving spouse or partner's TFSA without affecting the surviving spouse or partner's own existing TFSA contribution room.

