TAX-FREE SAVINGS ACCOUNT

Beginning in January 2009, any Canadian resident individual eighteen years of age and older can put up to $5,000 per year into a tax-free savings account (TSFA). The income (interest, dividends, capital gains, etc) that is earned on the contributions is never taxed.

MAIN FEATURES OF THE TSFA

- Generally you are allowed to invest in the same products that qualify for investments in your RRSP.
- Unused contribution room will be carried forward indefinitely.
- The CRA states that it will determine the contribution room for each individual who files a personal income tax return.
- Any withdrawals will be added to the contribution room for the following year.
- The contribution room will be indexed to inflation after 2009, rounded the nearest $500.
- Interest on money borrowed to make a contribution is not deductible for tax purposes.
- Losses in a TSFA cannot be used to offset gains or income earned outside a TSFA.
- Upon death, there is a deemed disposition (it's treated like you cashed it in) just prior to the death, so accumulated income and capital gains that were earned up to the date of death are tax-exempt.
- The plan can be left to a surviving spouse and maintain its tax-exempt status, or can be transferred to the surviving spouse's plan without affecting the spouse's contribution room.
- Upon marriage breakdown, transfers are allowed to the former spouse's plan and this will not increase the amount of contribution room of the transferor or reduce the contribution room of the transferee.
- For non-residents, existing plans will continue to be tax-exempt, no contributions will be allowed while non-resident and no contribution room will accrue while non-resident.
- The TSFA can be used as collateral for a loan.
- There will be a 1% tax on excess contributions, similar to other registered plans.

Another tax advantage of a TSFA is that withdrawals from the TSFA are not included in income or used for federal income-tested benefits like the Canada Child Tax Benefit, Employment Insurance, the Goods and Services Tax Credit, the Guaranteed Income Supplement, the Working Income Tax Benefit or the claw back of Old Age Security.

Source: David Trahair, CA