

Invest. Tax-Free

(It will make you smile)

Tax-Free Savings Account



Credential[®]
Asset Management

A Saving & Investing Revolution

The Tax-Free Savings Account (TFSA) is considered to be the most important personal savings plan introduced in Canada in the past 50 years.

Use it to save for a vacation, a car, home renovations — whatever. The choice is yours.

Tax-Free Benefits

The Government has made the TFSA very flexible and with lots of great benefits. The three most important ones are:

- **Your investments grow tax-free**
- **You don't pay tax when you withdraw** money
- **You can withdraw money any time**, for any reason, and any amount.

Almost Everyone is Welcome

You're eligible for the Tax-Free Savings Account if you:

- Are a Canadian resident
- Are 18 years or older
- Have a valid SIN.

You can even invest in a TFSA if you don't earn income, you're retired, or you're not a Canadian citizen.

***Investments grow faster
because interest income
and growth are tax-free***



Easy to Add & Withdraw Money

Because a TFSA is ideal for everyday saving, the Government has made it easy for you to put money in, but also to take money out.

Putting Money In

- **You'll be allowed to contribute at least \$5,000 each year** regardless of your income. In the future, this will be regularly increased to reflect inflation
- **Unused contribution room is added**, or carried over automatically to future years, just like an RRSP
- **You can contribute to a spouse's or common-law partner's TFSA** without reducing your own contribution room
- **A variety of investments are permitted**, all the same ones you'd hold in an RRSP.

Taking Money Out

- **You can withdraw money tax-free, anytime, for any reason, any amount.** And you don't have to report withdrawals or investment gains on your tax return
- **Amounts you withdraw are added to your contribution room** the next year. And, you can put the money back into your TFSA in any future year, whenever it's convenient for you
- **Withdrawals won't reduce federal income-tested benefits or credits** like Old Age Security, or the Guaranteed Income Supplement. That's because neither withdrawals nor growth are considered income.

The TFSA Advantage

Money grows faster in a Tax-Free Savings Account because investment growth and interest aren't taxed.

If Mitch invests \$416 a month (\$5,000 a year) for 10 years in a portfolio with an annual return of 5.0%, he'd accumulate \$4,545 more if his portfolio was held within a TFSA than if it was in a taxable (non-registered) account. That's the TFSA advantage.



Assumes Mitch has a marginal tax rate of 21%, his portfolio is made of 30% dividends, 40% interest, and 30% capital gains and that his contributions are made at the beginning of each month.

Source: Canada Revenue Agency

Doing the Math

Each year your total TFSA contribution room is made of three amounts:

A: Any unused contribution room accumulated from previous years

Plus B: Any amounts withdrawn from the previous year

Plus C: Your annual contribution limit for the current year

If in Year 1 Pierre contributed only \$4,000, he'd have \$1,000 in carried forward contribution room (A). If he then withdrew \$2,000 for a vacation (B), his contribution room in Year 2 would be \$8,000 (A \$1,000 + B \$2,000 + C \$5,000).

Your TFSA contribution room will be reported each year on your CRA Notice of Assessment.

Pack Light

If you move outside of Canada there's no need to close your TFSA, but you will have to accept a few restrictions.

You're still allowed to:

- Continue to hold your TFSA
- Withdraw money without paying tax
- Accumulate contribution room from amounts withdrawn.

But, you can't:

- Make further contributions, until you resume your Canadian residency, or
- Accumulate the annual contribution limit.

Death. And No Taxes

Another great benefit of a TFSA is that when you die it can 'rollover' tax-free to your spouse or common-law partner as long as they're named as your TFSA's successor.

If they are, one of two things can happen:

- **Your spouse takes over** as the new owner of your account, or
- **Your TFSA transfers to their own TFSA** tax-free, without affecting their contribution room.

If you don't designate a successor, then your TFSA transfers to your estate, tax-free. However, any income or gains earned by your TFSA after your death are considered taxable.

The Drawbacks

Nothing's perfect, and even the TFSA has a few drawbacks.

- **Contributions aren't tax deductible** like they are with an RRSP
- **Claiming a capital loss isn't allowed** if your investments drop in value
- **Interest isn't deductible on money you borrow** to make a contribution
- **Contribute too much and pay a penalty** of 1% per month on any excess until you withdraw that excess
- **Include non-qualifying investments and you'll be taxed.**

Different Than an RRSP

In some ways, TFSAs and RRSPs are almost mirror images of each other.

- **A TFSA is for everything in life**, an RRSP is primarily intended for retirement savings.
- **You use after-tax dollars** to contribute to a TFSA, but can use pre-tax dollars for an RRSP
- **You can't claim a tax deduction** for TFSA contributions, but you can with an RRSP
- **It's easy to withdraw** your TFSA money and when you do, you won't pay tax. It's harder to access your RRSP funds, and if you do, you'll pay tax
- **The TFSA doesn't have to be rolled over** to another type of plan when you turn 71. An RRSP does — into a RRIF or annuity, and once that occurs, you're forced to make withdrawals. But there's no mandatory withdrawals with a TFSA.

How TFSAs and RRSPs Compare

	TFSA	RRSP
CONTRIBUTIONS		
Maximum limit for 2009 (\$)	5,000	21,000
Limits Indexed for Inflation	Y	Y
Tax Deductible	N	Y
Carry Forward of Unused Room	Y	Y
Penalty for Over-Contributions	Y	Y
Permitted Past Age 71	Y	N
WITHDRAWALS		
Not Taxed	Y	N
Creates Equal Contribution Room	Y	N
May Reduce 'Income-Tested' Benefits	N	Y
OTHER		
Growth is Tax-Free While in Plan	Y	Y
May Be Used as Loan Collateral	Y	N
At Death Can Transfer Tax-Free to Spouse	Y	Y

The Same as an RRSP

TFSA's and RRSP's have their similarities too. In fact, all things being equal they're both 'tax-neutral' — if your income and tax rate are the same when you contribute and when you withdraw your money, you'll end up with the same amount of money in your pocket investing within a TFSA as you would investing within an RRSP.

The Same Tax Rate = The Same Tax Benefit

	TFSA	RRSP
Money You Invest Before Tax	\$1,000	\$1,000
Tax Rate: When You Invest (40%)	(\$400)	N/A
Actual Contribution	\$600	\$1,000
Growth at 6% over 20 Years	\$1924	\$3,207
Tax Rate: When You Withdraw (40%)	N/A	(\$1,282)
Money in Your Pocket	\$1924	\$1924

But, if Tax Paid increases

from When You Invest (26%) to When You Withdraw (40%)	\$2373	\$1924
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But, if Tax Paid decreases

from When You Invest (40%) to When You Withdraw (26%)	\$1924	\$2373
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Rule of Thumb

If you're deciding between an RRSP or a TFSA and your only consideration is how much money you'll end up with, here's a rule of thumb:

- **If your income and tax rate are likely to be the same** when you contribute and when you make withdrawals, **use either**
- If your income/tax rate is **likely to be higher** when you make withdrawals, **use a TFSA**
- If your income/tax rate is **likely to be lower** when you make withdrawals (i.e. when you retire) then **choose an RRSP**.

TFSA Strategies

A TFSA should be used to complement your RRSP, not replace it. Most Canadians will want to use both. Your Credential® investment professional can help you decide when it's best to contribute to your TFSA and when it's better to invest within an RRSP. In the meantime, here are some guidelines.

Saving for Everyday Life

When you want easy and frequent access to your money, use a TFSA. You'll be able to withdraw funds tax-free at any time and recontribute the same amount in the future. Keep your RRSP for long-term retirement savings.

Low Income Earners

If you're investing in an RRSP you may benefit more from the tax-free growth and withdrawal flexibility of a TFSA than from the modest tax deduction of an RRSP.

If you receive the Canada Child Tax Benefit, Employment Insurance or the Guaranteed Income Supplement (GIS) use a TFSA to avoid potential clawbacks.

Just Starting Out in Life

If your income will likely increase in future years, then start investing in a TFSA before an RRSP. Over the years you'll accumulate RRSP contribution room that you can eventually take advantage of when your income is higher and when claiming the RRSP tax deduction has a bigger impact.

When you'll need to borrow money a TFSA may sometimes be used as loan collateral. Just remember, the interest on money borrowed to invest in a TFSA is not tax deductible.

If you're saving for a house or your own education a TFSA may be a better option than using the RRSP's Home Buyers Plan or Life Long Learning Plan because:

- Withdrawals don't have to be paid back
- Money doesn't have to be kept in the account for 90 days before withdrawing
- If you decide to use your money for another purpose, you don't have to pay tax.

Already Investing

If you own interest-bearing investments, like GICs, money market mutual funds, term deposits, or bonds, which are taxed at higher rates, put them in a TFSA where they are tax sheltered. Over the medium or long term, this can be great way to build wealth.

If you have high risk/high return investments a TFSA might be better than an RRSP or non-registered account. If your \$5K grows to \$50K it could be withdrawn tax-free. The downside — you can't claim a capital loss if your investments lose value.

If you have investments in a non-registered account transfer them 'in-kind' to your TFSA so they can grow tax-free. But keep in mind any capital gains realized on investments being transferred need to be reported on your tax return and will be subject to tax. And, if your investments have dropped in value your capital loss can't be claimed. If that's the case, you may be better off selling the investments within your non-registered account first, then putting the money in your TFSA. This way you can claim the capital loss.

Saving for Retirement

If you have a pension plan at work and therefore have limited opportunities to contribute to an RRSP, use a TFSA to augment your pension savings.

If you're retiring in 10-20 years and haven't saved anything use a TFSA to complement your RRSP and grow your nest egg more aggressively.

If you've used up all your RRSP contribution room, put additional savings in a TFSA before a non-registered plan so your money can grow tax-free.

If you want to reduce taxable income in retirement, use a TFSA in addition to your RRSP. After you convert your RRSP into a RRIF at age 71, RRIF withdrawals are taxed, and the more money you withdraw the higher your marginal tax rate. But by also withdrawing funds from a TFSA tax-free you can reduce your RRIF withdrawals, potentially lowering the overall tax you pay.

Already Retired

If you receive Old Age Security use a TFSA to reduce potential clawbacks. TFSA interest earned or withdrawals aren't considered income so won't affect OAS benefits.

If you're forced to take pension payments or RRIF/LIF withdrawals which you don't need, move them to a TFSA where they can grow tax-free until you need them later.



Let's Talk Soon

When you want to invest your money, tax-free, drop by the investment area of your credit union branch or investment firm and make an appointment to see one of our Credential Asset Management Inc. Mutual Funds Investment Specialists.

We can help you make your investments work harder in your own Tax-Free Savings Account.

We might even make you smile.

Credential[®] Asset Management

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