Tax-Free Savings Accounts (TFSAs)

Beginning in January 2009 Canadian residents who are 18 years or older will have a new way of saving and investing for their future – the Tax-Free Savings Account (TFSA). Introduced in the 2008 Federal Budget, this new savings account will allow your savings and investments to grow tax free and you can make withdrawals from the TFSA without paying income tax on them. Highlights of the TFSA are described below.

Individuals will be able to contribute up to $5,000 per year in a TFSA, and contribution limits will be indexed to inflation and rounded to the nearest $500 on a yearly basis. Unused contributions can be carried forward indefinitely. Another piece of good news is that there are no maximum age limits on contributing to a TFSA nor are TFSA contribution limits based on income.

You can give money to your spouse or common-law partner to deposit into their own TFSA without affecting your personal contribution limit, and the income earned in their TFSA will not be subject to the CRA's income attribution rules. Joint TFSAs and TFSAs in trust for minors are not permitted. You can still save in an RRSP because TFSA contributions will not impact your RRSP contribution limits. TFSA contributions, however, are not tax deductible.

Withdrawals from TFSAs can be made at any time, for any reason, and there is no income tax withheld at source or due later when you file your tax returns. In fact, funds withdrawn from a TFSA will not affect federal income-tested benefits or credits such as the Canada Child Tax Benefit, the Guaranteed Income Supplement, OAS benefits, the Age credit, and the GST credit. Withdrawals from a TFSA can be put back into the TFSA without reducing your contribution room, but you may only do this in a subsequent calendar year.

Generally speaking, TFSAs will be permitted to hold the same investments as RRSPs. These include cash, government and corporate bonds, GICs, publicly-traded securities, mutual funds, and certain shares of small business corporations. Excess contribution penalties will be similar to RRSPs; however, penalties for holding ineligible securities in a TFSA will be significantly greater.

When specifically named as a beneficiary, TFSAs can be transferred tax-free into the name of a surviving spouse or common-law partner or into their own TFSA without any impact on the survivor's existing contribution room. In other cases, such as an estate, earnings that accrue in the TFSA after the account holder's death will be taxable, while those that accrued before death would remain exempt. In the event of a breakdown of a marriage or common-law partnership, an amount could be transferred directly from one spouse/partner's TFSA to the other's TFSA, and the amount of the transfer would not affect either person's contribution room.

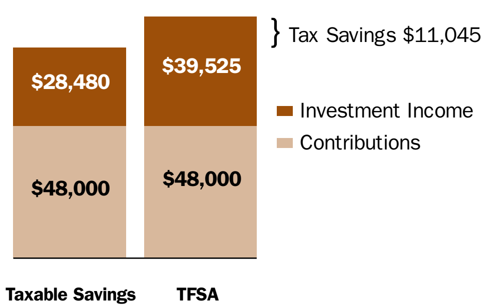
Canaccord clients will be able to open Tax-Free Savings Accounts in the fall of 2008. However, contributions and other transactions are not permitted by the CRA until the first business day in January 2009. *Further information will be available through your Investment Advisor or on our website (www.canaccord.com) over the course of the next few weeks.* ■

Saving in a TFSA

Since investment income and capital gains earned in a TFSA will be tax exempt, a person contributing $200 a month to a TFSA for 20 years will enjoy an additional savings of $11,045 compared to saving in an unregistered account.

For more information on the Tax Free Savings Account, please visit the Department of Finance Canada website (http://www.fin.gc.ca/) or contact your Investment Advisor.

TFSA versus unregistered savings



Notes: Combined federal and provincial tax savings based on a $200 monthly contribution for 20 years and a 5.5 per cent rate of return. For unregistered savings, a 21 per cent average tax rate on investment income is assumed (based on 40 per cent interest, 30 per cent dividends and 30 per cent capital gains, and a middle-income earning account holder.

Source: Government of Canada