Tax-Free Savings Account (TFSA)

Morgan Butler, FMA Jolene Laing, CIM, FCSI
Wealth Advisors

What is a TFSA?

- The ScotiaMcLeod TFSA will allow you to set money aside and watch it grow tax-free.
- All investment income and returns (interest, dividends and capital gains) earned in a TFSA are tax-free for life.
- You will have the option of purchasing multiple investments with the TFSA, including cash, GICs and mutual funds – the same investments as an RRSP; however, a TFSA will be prohibited from holding investments in an entity with which the account holder does not deal at arm's length.

When will the TFSA be available?

- The TFSA will be available for investing beginning January 2, 2009 as mandated by the Canadian federal government.
- ScotiaMcLeod has the ability to open accounts earlier than January 2, 2009 and you may call your advisor for information on opening a TFSA.
- Accounts will be opened and ready for investing for set-up of Pre-Authorized Contribution (PAC) or lump sum deposits January 2, 2009.

Who is eligible to set up a TFSA?

- Any individual who is a Canadian resident and 18 years of age or has reached the age of majority in their province or territory.
    - Residents of British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Yukon and Nunavut must be 19 years of age to open a ScotiaMcLeod TFSA; however, their contribution room will begin to accumulate at age 18.
- Only individual accounts can be set up. Joint accounts and in-trust accounts are not available.
- You are eligible to open a TFSA regardless of whether or not you have any earned income.

What tax information should you know?

- Contributions will be made with after tax dollars and will not be deductible for income tax purposes. Investment income and returns (interest, dividends or capital gains) will not be taxed even when withdrawn.
- Capital losses for investments inside a TFSA are not tax deductible.

What spousal information should you know?

- You may contribute to a spouse's TFSA without affecting your own individual contribution room.
- Income attribution rules do not apply to the TFSA.

What are the contribution limits?

- $5,000 per year – to be indexed to inflation annually in $500 increments beginning 2012.
- Unused contribution room is carried forward indefinitely.
- Contribution room will start accumulating in 2009 or the year in which a Canadian resident becomes 18 years of age. You do not need to open an account to begin to accumulate contribution room.
- Any amounts withdrawn will be added to future contribution room – unlike RRSPs, where contribution room is permanently lost if funds are withdrawn.
    - Funds withdrawn in one calendar year cannot be re-deposited until the following calendar year.

- Any excess contributions will be subject to a 1% penalty per month for each month that the excess remains in the account.
    - The Canada Revenue Agency (CRA) will determine TFSA contribution room (based on information provided by issuers) for each eligible individual who files an annual T1 individual income tax return. Individuals who have not filed returns for prior years (because for example, there was no tax payable) would be permitted to establish their entitlements to contribution room by filing a return for those years or by other means acceptable to CRA.
- TFSA contribution limits are separate and distinct from RRSP contribution limits.

What about withdrawals?

- Withdrawals can be made at any time, for any amount, and for any purpose.
- Since withdrawals are tax free, you will not receive tax slips for these withdrawals.
- Note: Standard fees and product withdrawal restrictions may apply.

What happens upon becoming a non-resident?

- Non-residents can maintain their accounts; however, additional contributions will not be permitted, nor will contribution room accrue for the years in which they remain a non-resident.
- Any amounts withdrawn will not be added to future contribution room during the period of non-residency.
- Earnings or withdrawals will not be taxed during the non-resident period.
- Non-residents cannot open a new TFSA.

What additional features should you know about?

- Income earned in a TFSA will not affect your eligibility for federal benefits and credits (i.e. CPP, OAS, child tax benefit)
    - If you currently receive government benefits, these benefits will not be affected if you open or contribute to a TFSA.
- Borrowing to fund a TFSA is permitted; however, interest expenses related to such a loan are not tax-deductible.
- TFSA assets can be used as collateral for a loan.

What Estate information should you provide?

- Current government policy does not allow for ScotiaMcLeod to accept designation of beneficiary information (spousal or otherwise) from clients.
- At this time a will is the only appropriate manner in which to provide beneficiary designation information for the proceeds of a TFSA.

How do I get started?

- Forms can be generated automatically for existing clients until the end of November – just let us know
- Don't forget to include a cheque for $5000 to be deposited on January 2nd, 2009
- Note that for households with less than $250,000 with ScotiaMcLeod, there will be an annual fee of $50/account charged each September.

For more information and to sign up your account today, please contact The Butler/Laing Group.

(604) 535-4749

morgan_butler@scotiamcleod.com • jolene_laing@scotiamcleod.com • danielle_hall@scotiamcleod.com

ScotiaMcLeod™

THE BUTLER / LAING GROUP

FINANCIAL PEACE OF MIND