



Tax Free Savings Accounts

The **Tax Free Savings Account** is an account that provides tax benefits for saving in Canada. Contributions to a TFSA are not deductible for income tax purposes. Even investment income, including capital gains, earned in a TFSA are not taxed, even when withdrawn.

Benefits

The TFSA is an investment option for Canadian residents 18 years and older wanting to save for the future. The TFSAs' flexible structure allows the holder to be able to withdraw money from the account at any time, free of taxes. The allocations into the account are non-deductible; however this represents a lucrative opportunity for individuals with left-over income to invest in a savings vehicle, without the pressure of time constraints. The account also alleviates the burden of the capital gains tax. The interest-income will be able to compound tax-free. In essence, the account-holder can withdraw any amount out of the account, free from capital gains and/or withdrawal taxes.

One mechanism in the design of the TFSA is the carry-over aspect. Any unused space under the \$5,000 cap can be carried forward to subsequent years, without any upward limit. The TFSA also allows income splitting to an extent, because a higher-earning spouse can contribute to the TFSA of a lower-earning spouse.

The \$5,000 annual contribution limit will be indexed to the Consumer Price Index, in \$500 increments, in order to account for inflation.

How TFSA's Differ from RRSP's

In a sense the tax treatment of a TFSA is the opposite of an RRSP. For RRSPs, there is a tax deduction for contributions to a RRSP, and withdrawals of contributions and investment income are all taxable. In contrast, there is no tax deduction for contributions to TFSA, and there is no tax on withdrawals of investment income or contributions from the account. Up to \$5,000 per year can be placed into a TFSA. This money can then be withdrawn at any point of time, without penalty. Unlike RRSP's, which must be withdrawn before the holder turns 71, the TFSA does not expire. The contribution room for funds withdrawn from a TFSA is reallocated in the tax year after the withdrawal, unlike an RRSP, where the contribution room is permanently reduced once a contribution is made. CRA describes the difference between a TFSA and an RRSP as follows: "An RRSP is primarily intended for retirement. The TFSA is like an RRSP for everything else in your life."