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## Tax-Free Savings Plans

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When Sophia first heard the term Tax-Free Savings Account (TFSA), the first thing that came to her mind was a low- or no-interest account at a bank. She soon learned that just about every investment option available to her in an RRSP is also available to her in a TFSA plan.

Glenn, 58, is of modest means and has saved less than \$50,000 in his RRSPs. He likes the fact that TFSA withdrawals will not affect his income-tested benefits, like the Guaranteed Income Supplement (GIS), when he retires. For every dollar of income from his RRSPs, there will be a fifty cent reduction in his GIS. It may make more sense for Glenn to gradually collapse his RRSP before he retires and deposit the after-tax proceeds in a TFSA.

Mike and Monica maximize their RRSP deposits every year and also save additional amounts for their retirement. Because growth in a TFSA is never taxed, it is a very attractive vehicle for additional retirement savings. Because interest income is 100% taxable outside a TFSA, Mike and Monica decided to use their TFSA plans for interest bearing investments.

Lauren opened two TFSA plans. She can only deposit \$5,000 (in 2009) in total to her plans. Lauren is using one TFSA to save for her next car. She likes the fact that she can withdraw funds from her account and her contribution room will be increased by the full withdrawal amount the next year. She is using her second TFSA as a rainy day account. With the uncertain economy, Lauren is concerned about her income needs in case she is laid off.

John borrowed to invest in his TFSA. Just like an RRSP loan, interest paid on the TFSA loan is not tax-deductible. He wanted to take advantage of the lower investment fund unit values available now.

Pete and Laura each have a non-RSP investment account. They transferred \$5,000 each, in-kind, into TFSA plans. For tax purposes, it is deemed that the investments were sold, which means there could be a gain or a loss. In this situation, gains are taxable but losses are not deductible. Good thing for Pete and Laura that their accounts were very close to even.

Theresa was only able to deposit \$2,000 to her TFSA in 2009. She likes the fact that, like RRSPs, she doesn't lose her contribution room if she doesn't make a full deposit. With the contribution amount remaining at \$5,000 for 2010, Theresa will be able to contribute up to \$8,000 into her TFSA next year.

**During 2009, all provinces and territories (excluding Quebec) enacted legislation allowing the naming of beneficiaries on TFSA plans.**

Ron and Rachel like the fact that they can use a life insurance company deposit product for their TFSAs. It doesn't matter where they live in Canada, they can name a beneficiary. They can also name secondary beneficiaries so that if they die together, their children will automatically be next in line to receive the proceeds. This means that Ron and Rachel's kids won't have to wait for their estate to be settled before they can access the TFSA funds. They also avoid legal and probate fees on the money.

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## Want help with your tax-free savings?

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