

## Tax-Free Savings Accounts (TFSA)

By Dana Russell

The newest savings vehicle available to Canadians is called a Tax-Free Savings Account (TFSA). New in 2009, TFSAs offer Canadians a new way to save money in a tax-efficient manner. Whether you are saving for the short term (0-5 years) or for the longer term (6 years and beyond) a TFSA can be a valuable addition to your financial plan.

### TFSA Contributions

Tax-Free Savings Accounts were introduced in the 2008 Federal Budget. Just as the name suggests, TFSA's are tax-free. Canadian residents, aged 18 or older, can contribute \$5,000 annually, to a TFSA. These contributions are not tax-deductible like RRSP contributions. However, similar to RRSP contributions, unused TFSA contribution room can be carried forward to future years.

The money invested in a TFSA can earn capital gains, interest, and dividends on a tax-free basis. There are no taxable consequences on withdrawal of funds from a TFSA, and income earned on TFSA investments will not affect income tests for federal tax benefits and credits.

### Frequently Asked Questions

**1) *What investment can I hold in a TFSA?***

You can hold GIC's and other savings products, mutual funds, stocks and bonds.

**2) *Can I give money to my spouse to invest in a TFSA?***

Yes, you can. Also, the amount you give to your spouse will not affect your contribution room and earnings on your spouse's TFSA investments will not be attributed back to you.

**3) *If I withdraw from my TFSA, can I pay it back?***

Yes, you can. Also, the money you pay back will not affect your current contribution room as long as you begin paying it back no earlier than the year following your withdrawal.

**4) *Can I contribute more than \$5,000 each year to my TFSA?***

No, you can't. If you do over-contribute to the TFSA, you will be penalized at a rate of 1% per month of the excess contribution. For example, if you contribute \$6,000 when your contribution room is only \$5,000, you will be penalized \$10 (1% of \$1,000 excess) each month until you correct the over-contribution.

You can carry forward your unused contribution room to future years.

### Conclusion

TFSA's provide flexibility for adult investors at any life stage. With proper planning and implementation TFSA's can provide attractive tax-savings opportunities, helping you reach your financial goals.