The Holder may designate someone other than the spouse/common-law partner as beneficiary of the TFSA, or may choose not to name any beneficiary at all. In either circumstance, the fair market value (FMV) of the TFSA at date of death is tax-free. Any increase in value of the TFSA after date of death becomes taxable income either of the beneficiary or of the deceased's estate, depending on the circumstances and the date of payments.

Non-resident Holder

When a Holder is no longer a resident of Canada, the following rules apply:

- The TFSA may remain open.
- No contributions may be made.
- Non-resident Holder will not accumulate contribution room.
- Withdrawals will increase contribution room; however, the Holder cannot take advantage of the increased contribution room until he / she becomes a resident of Canada.
- If a non-resident Holder makes a contribution, the Holder is subject to a 1% per month penalty tax for each month that the contribution remains in the TFSA.

If the Holder becomes a resident of Canada, contribution room will commence accruing and the Holder may make future contributions.

TFSA

MEMBER TAX-FREE SAVINGS ACCOUNT

A Fresh Approach to Your Savings

Tax-Free Savings Account (TFSA)

The Federal Government has introduced a new registered savings account that allows taxpayers to earn investment income tax-free. The Tax-Free Savings Account (TFSA) is available beginning in 2009 to Canadian Residents age 18 or older. TFSA allows taxpayers to set money aside in eligible investment vehicles and watch those savings grow tax-free throughout their lifetime.

There are no restrictions on the way TFSA funds (contributions and earnings) may be used (i.e. purchase a car, renovate a home, start a small business, take a family vacation, or just save for 'a rainy day'). All income levels and all walks of life can benefit from a TFSA. But only a careful review of each person's financial situation will determine how to optimize use of RRSPs, RESPs, RRIFs and TFSAs.

Types of TFSAs

There are three basic types of TFSAs: deposit-type plans, mutual funds, and self-directed plans.

Credit unions, trust companies, mutual fund companies, life insurance companies, banks and investment dealers are able to offer TFSAs. While all TFSAs provide the same benefits, not all plans are the same. Each financial institution may offer one or more ways to invest your money, and the growth rates, terms, conditions, availability of deposit insurance, and fees may vary.

(continued on reverse)

Tax-Free Savings Account: A Fresh Approach to Your Savings

TFSA Eligibility

The individual owning the TFSA is the 'Holder'. Any individual person (not trusts or corporations) who meets all of the following three requirements is eligible to open a TFSA:

- Resident in Canada, and
- 18 years of age or older, and
- Holds a valid Social Insurance Number (SIN).

There is no maximum age limit to open or hold a TFSA and a person may hold more than one TFSA.

TFSA Contribution Limit

Contributions to a TFSA may only be made by the Holder and the amount is not tied to the income of the Holder.

- $5,000 is the maximum TFSA contribution limit for each year beginning in 2009.
- After 2009, the $5,000 maximum contribution limit may be increased depending on the rate of inflation; rounded to the nearest $500 e.g. if the rate of inflation in 2009 is 5.1%, in 2010, the maximum would increase to $5,500 ($5,000 x 5.1% = $255; nearest $500 is $5,500). Therefore the limit will increase some years, but not every year.
- Contributions are not tax deductible.

NOTE: The Holder is responsible for ensuring the maximum contribution limit is not exceeded. An excess contribution will result in a penalty tax of 1% per month for each month that the excess contribution amount remains in the TFSA.

TFSA Unused Contribution Room

When a TFSA Holder contributes less than the maximum contribution limit, the difference is referred to as 'unused contribution room'.

- Unused contribution room will accumulate each year.
- Unused contribution room is carried forward indefinitely, allowing the Holder to 'catch up' by contributing more than the maximum contribution limit in a future year.
- A TFSA withdrawal will increase the contribution room for the year after withdrawal. As a result, when amounts are withdrawn from a TFSA they can be re-contributed in the future when funds become available.
- Canada Revenue Agency will confirm the contribution room on the annual Notice of Assessment.

NOTE: Individuals who do not have taxable income and who do not file a tax return do not receive the annual CRA Notice of Assessment. Those individuals should file a NIL T1 Tax Return so CRA can issue a Notice of Assessment that confirms the TFSA contribution room.

Qualified Investments

The types of eligible investments are restricted under the *Income Tax Act* and include:

- Term deposits and GICs
- Variable interest savings accounts
- Credit union shares
- Index-linked term deposits
- Mutual funds
- Publicly traded securities
- Bonds

There are restrictions on holdings in a self-directed TFSA. Check the rules carefully if the investment is in an entity in which the Holder has a significant interest (generally more than 10%) or where there is a non-arm's length relationship.

Borrowing Money to Purchase a TFSA

Interest on money borrowed to purchase a TFSA is not deductible for tax purposes.

Benefits and Advantages

Benefits or advantages based on TFSA holdings, such as merchandise, trips or interest-free loans, are subject to a penalty tax.

Withdrawals

- TFSA Holder may withdraw funds at any time; withdrawals may be restricted by investment terms.
- Withdrawals are not reported as taxable income and are not subject to income tax.
- TFSA withdrawals of contribution/earnings will increase contribution room for future years, but not the current year.
- Withdrawals will not impact eligibility for federal income tested benefits and credits (e.g. OAS, GIS, Age Credit, GST, EI, child-tax benefit, working income tax benefit).

Transfers

- TFSA is transferable to another TFSA owned by the Holder; transfers may be restricted by investment terms.
- Transferable to a spouse/common-law partner on death of the Holder.
- Transferable to a former spouse/common-law partner on relationship breakdown.

NOTE: A transfer due to death will not affect the TFSA contribution room of the surviving spouse/common-law partner. A transfer due to relationship breakdown will not affect the TFSA contribution room of the Holder or former spouse/common-law partner.

Death of a TFSA Holder

A TFSA Holder may appoint his/her spouse/common-law partner as successor holder and beneficiary of the TFSA. Upon death of the Holder, the spouse/common-law partner will become the Holder of the TFSA. Alternatively, the surviving spouse/common-law partner may transfer the funds to a new or existing TFSA in his/her name. There will be no impact on the TFSA contribution room of the surviving spouse/common-law partner.