

TFSA: Flexible Wealth Building Strategy

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The Tax-Free Savings Account (TFSA) was introduced in the February 2008 Federal Budget and became available January 1, 2009. It is touted by the Government of Canada as 'the single most important personal savings vehicle since the introduction of the Registered Retirement Savings Plan (RRSP).'

The Canada Revenue Agency (CRA) draws a distinction between an RRSP and the TFSA program as, 'An RRSP is primarily intended for retirement. The TFSA is like an RRSP for everything else in your life.' The reason for this distinction is that TFSAs offers the investor the flexibility to access the funds without incurring a tax obligation upon withdrawal. As we are all aware 'life happens' and having all of our money in rigid investments can put a damper on our liquidity. This is especially true for growing families where access to emergency funds is always necessary. It's better to save those funds in a tax free account than to have your interest income eroded due to taxes.

The features of the Tax Free Savings Account:

- Available to Canadian residents who are least 18 years of age
- Includes a \$5,000 annual limit
- Allows withdrawals tax-free
- Contribution room carry-forward
- Withdrawal amounts can be reinvested in future years
- Does not affect eligibility for Old Age Security (OAS), Guaranteed Income Supplement (GIS), or the Canada Child Tax Benefit.
- Can be transferred to a spouse or common-law partner upon death.
- Investments can be in the form of cash, mutual funds, segregated funds, or GICs among others.
- Allows a higher earning spouse to contribute to the TFSA of a lower income partner.
- Is indexed to the Consumer Price Index (CPI) to account for inflation.
- Has no upper age limit for participation or withdrawal.

The Tax Free Savings Account is an ideal investment for those who want to earn investment income without the tax burden as well as those who want liquidity in their savings. While the wealthy may take advantage of these savings vehicles, it is the middle class that stands to reap the most benefits. Instead of holding funds in a 'rainy day' savings account, you can increase your return through tax savings without losing flexibility. As with any investment plan there are some caveats to consider as the CRA found that some of the 4.7 million TFSA investors were confused in its application.

Questions about TFSAs?

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