

Meeting clients' needs for tax-free growth and withdrawals

What is the Tax-Free Savings Account?

In 2008, the Federal Budget introduced the Tax-Free Savings Account (TFSA), available in January 2009. A registered savings plan, the Tax-Free Savings Account gives investors the opportunity to increase their retirement investing, perhaps save for a home purchase, or provide for children's education, while protecting their capital growth from tax.

How the TFSA works

Available to residents of Canada over the age of 18, investors have the ability to save \$5,000 per year. The accounts are considered a tax pre-paid savings plan as contributions are made from after-tax income. Investments that qualify for TFSAs are generally the same as RRSPs and can include alternatives such as stocks, bonds, and mutual funds. Capital gains and any other income earned within a TFSA are non-taxable, and there are no limits to the frequency of withdrawals from an account.

Contributions are made in Canadian dollars from after-tax income. The contribution limit of **\$5,000** will be indexed to inflation each year and rounded to the nearest \$500 on a yearly basis. Any unused contribution will be carried forward indefinitely. Contributions in excess of TFSA limits will be subject to a penalty tax of 1% per month.

Withdrawals are permitted at any time and are not included in income. As such, withdrawals will have no impact on government benefits and credits. Amounts withdrawn can be put back into the TFSA at a later date without reducing contribution room.

Key benefits

Tax Efficiency

Any capital gains and other investment income earned within a TFSA are not subject to tax when withdrawn.

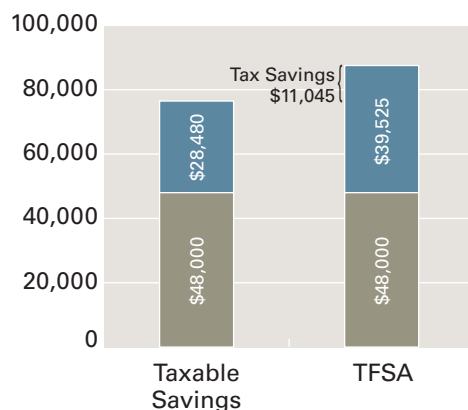
Contribution Allowance

Any withdrawals made in the previous years will be added to the current year's contribution allowance. Unused contribution can be carried forward indefinitely.

Savings Flexibility

A TFSA can be used for a variety of financial goals, including saving for education, home purchases, or starting a new business, and is a great alternative when RRSP contributions have been maximized.

Tax-Free Savings Account vs. A Regular Taxable Savings Account



■ Investment income ■ Contributions

This graph represents the growth of a tax-free savings account over 5 years with tax-free investment income and capital gains compared with a standard taxable savings account.

Notes: Combined federal-provincial tax savings, based on a \$200 monthly contribution for 20 years and a 5.5 per cent rate of return. For unregistered savings, a 21 per cent average tax rate on investment income is assumed (based on 40 per cent interest, 30 per cent dividends and 30 per cent capital gains, and a middle-income earning account holder).

Source: Department of Finance Canada, Budget 2008

TFSA vs. RRSP

The assets of both TFSAs and RRSPs grow on a tax-free basis. TFSAs are one more tool investors can use in meeting their long-term savings goals. The following table is a comparison of the features of a TFSA and RRSP.

	TFSA	RRSP
Contributions	Contributions are not tax-deductible.	Contributions are tax-deductible.
Withdrawals	Withdrawals are not included in income and therefore, are tax-free.	Withdrawals are included in income and fully taxable in the year received.
Contribution Limits	\$5,000 each year (this annual contribution limit will be indexed to inflation and rounded to the nearest \$500 on a yearly basis).	Contribution limits are based on your previous year's earned income up to a maximum amount, less any applicable pension adjustment.
Minimum Age Requirement	The minimum age to open a TFSA is 18 years of age.	There is no minimum age requirement to open an RRSP.
Maximum Age Restriction	There is no maximum age restriction.	RRSP accounts must be closed by December 31 of the year an individual turns 71.

While maximizing both RRSPs and TFSAs is advisable where possible, tax and estate planning expert, Jamie Golombek, offers the following advice when choosing between the two accounts:

- If your retirement income is projected to be lower than your current income, an RRSP may be a better choice as the tax rate upon withdrawal may be lower than at the time of contribution.
- If your retirement income is projected to be higher than your current income, a TFSA may be a better choice as the tax rate may be higher upon withdrawal than at the time of contribution.

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Jamie Golombek is Managing Director, Tax & Estate Planning at CIBC Private Wealth Management. He is frequently quoted in the national media as an expert on taxation and writes a weekly column in the National Post.

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Features

Flexibility

The TFSA is available to all Canadians over the age of 18, and has a \$5,000 maximum annual contribution limit. All withdrawals are non-taxable, making it ideal for immediate needs.

Choice

Clients can hold a variety of securities inside a TFSA including mutual funds, publicly traded securities, guaranteed investment certificates (GICs), savings accounts, bonds, and certain shares of small business corporations.

Availability

Clients can hold all **Renaissance Investments** and **Axiom Portfolios** products within a TFSA.

Advisor Contact Details