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## *2009 Tax-Free Savings Accounts (TFSA)*

*(Extract from our February, 2008 Newsletter)*

*Beginning in 2009, Canadians over the age of 18 can contribute \$5,000 each year to a TFSA and investment income, including capital gains, will accumulate tax-free. Withdrawals will also be, as the name implies, tax-free. Unused contribution room carries forward to subsequent years.*

### *❖ Eligibility and Contribution Limits –*

Commencing in 2009, individuals age 18 and older may establish a TFSA to which they can make non tax-deductible contributions subject to certain dollar limits.

Similar to RRSPs, individuals will accumulate contribution room that will limit the amount that they can contribute to TFSAs. For 2009, the maximum contribution limit will be \$5,000 with this limit being indexed for subsequent years. Any unused contribution room can be carried forward indefinitely.

Based on the Budget documents, it appears that the Canada Revenue Agency will determine and report unused TFSA contribution room to eligible

individuals. Unlike RRSPs, amounts withdrawn are not only tax-free, but can also be returned to the TFSA at a later date without reducing unused contribution room.

❖ *Qualified Investments* - The Budget proposes that a TFSA will generally be permitted to hold the same investments as an RRSP. These include, for example, mutual funds, publicly traded securities and government and corporate bonds.

❖ *Borrowing to Contribute to a TFSA* - Because investment income within and withdrawals from a TFSA are not taxable, interest on money borrowed to contribute to a TFSA will not be tax deductible.

❖ *Spousal Contributions and Attribution Rules* - Generally, if an individual transfers property to his or her spouse or common-law partner, any income and capital gains on that property will be taxed in the hands of the individual making the transfer under the attribution rules contained in the *Income Tax Act*.

Withdrawals from a TFSA and income and capital gains generated within a TFSA will not be subject to these attribution rules.

