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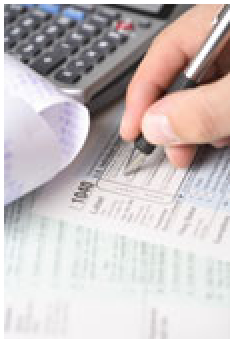
January 2009



2009 Tax Free Savings Account update

(By: Jacques F. Liwanpo, CA CFP Jan 2009)

If you, like many others still have questions about how the new Tax-free Savings account can benefit you, then read on. The following article answers such questions as "How is the tax-free savings account different from existing plans?" and "Is it better to contribute to a TFSA or an RRSP?" ….

We wrote about the features of the Tax free Savings Account (TFSA) earlier this year and what it might mean for you.

We think TFSAs are a great gift the government has given Canadians to help them to save for the future. It's the most important thing that's happened in that regard since RRSP's 50 years ago.

The idea of a tax-advantaged account is not new. The U.S. introduced a similar account called the Roth Individual Retirement Account (Roth IRA) in 1997, but it is more restrictive than Canada's TFSA. These accounts have become very popular in the U.S.

Starting in 2009, Canadian residents age 18 and over can invest up to $5,000 a year in a TFSA. Investments such as stocks, bonds, and mutual funds are eligible for TFSA's.

How is the tax-free savings account different from a registered retirement savings plan?

There are two main differences:

•contributions to a tax-free savings account are not deductible from your taxable income, as are RRSP contributions, and

•withdrawals from a TFSA are not added to your income and taxed at current rates, as are RRSP withdrawals.

The TFSA also offers greater flexibility. You can withdraw money from your TFSA at any time and replace it later without losing your ability to make future contributions, as you do with RRSPs.

With such flexibility, The TFSA can be used for a variety of reasons, such as accumulating a down payment for a home, saving for a trip, and saving for retirement.

Is it better to contribute to a TFSA or an RRSP?

Generally speaking, the answer depends on two variables – your tax rate when you contribute funds and your tax rate when you withdraw funds. If you expect to be in a lower tax bracket when funds are withdrawn, an RRSP is probably a better investment . If you expect to be in a higher tax bracket when money is withdrawn, a TFSA may be the better choice. However, each individual situation is unique and other factors may come into play.

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We strongly suggest that you open up a TFSA account as soon as possible. This is a great opportunity to invest into historically low priced equities during down markets. Please do not hesitate to get in touch with me to discuss this opportunity.