

WAYNE HUGHES CHARTERED ACCOUNTANT

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A GREAT NEW INVESTMENT VEHICLE

Tax Free Savings Accounts (TFSA) will be available at financial institutions beginning in 2009. You can contribute up to \$5,000 per year if you are 18 years old or older and resident in Canada. An additional contribution limit of \$5,000 will be added each year. These additional contribution limits will be indexed to inflation. The unused contribution limits carry forward and can be used in the future.

What is the benefit?

Investments held in the TFSA are exempt from tax. For example, an individual can purchase shares at a cost of \$5,000 in the TFSA. If the shares increase in value to \$14,000, and the shares are sold, the entire capital gain of \$9,000 is tax free. Other income earned on this \$5,000 such as interest or dividend income is also tax free.

Contributions into a TFSA are not tax deductible as with a Registered Retirement Savings Plan (RRSP). However, withdrawals out of a TFSA are not taxable as they are with an RRSP. In addition, any withdrawals taken out of a TFSA will be added back into your contribution room in the next year. In this way, it can later be put back into your TFSA to earn more tax free investment income in the future.

What types of investments can be put into a TFSA?

A TFSA can hold the same type of investments as RRSPs. Mutual funds, publicly traded shares, corporate bonds or GICs are qualified investments for a TFSA.

The TFSA cannot be used to hold investments in “non – arm’s length entities”. This means investments in related companies.

What are the disadvantages of a TFSA?

Interest expense on a loan to put investments in a TFSA is non deductible for tax purposes.

A capital loss realized in a TFSA can only be claimed against capital gains in a TFSA. Over contributions into a TFSA account, in excess of the contribution allowed, are subject to a penalty of 1% per month.

Recommendation

If you are presently earning investment income, you should consider opening a TFSA to hold \$5,000 of your investments on January 1, 2009. All the income earned on this \$5,000 will be tax free.

If you have any questions, please contact me at your convenience at (416) 234-5757. In addition, I have just set up a new website and invite you to check it out.