

# my money At a Glance

Helping You Understand Savings and Investments



## The Tax-Free Savings Account – a new way to save

This year's federal budget (Budget 2008) includes a new way for Canadians to save – the Tax Free Savings Account (TFSA). Beginning January 1, 2009<sup>1</sup> Canadian residents 18 and over can contribute up to \$5,000 per year in a TFSA and won't pay tax on interest earned or investment income.

### Flexibility for different savings needs throughout your life

The TFSA is a flexible savings tool that can be used in different ways at different stages of your life. For example:

- If you are in your 20s and starting your career, you can use the TFSA to put aside funds to purchase your first car or home.
- If you are in your 30s with a young family, you can use the TFSA to create an emergency fund.

- If you are over the age of 71 you can transfer a portion of your taxable retirement income into a TFSA, and any future income earned will not impact other government-eligible income benefits.

Unlike RRSPs, funds in a TFSA can be withdrawn at any time without penalty, and any withdrawals you make create contribution room for future years. This gives you flexibility throughout your lifetime based on your changing financial needs.



### The ongoing role of RRSPs

The TFSA is designed to complement existing registered plans such as your RRSP. The same investment products will be available with TFSAs as with an RRSP and the annual limit will increase with inflation each year. Unlike RRSPs, there is no tax deduction at the point of contribution but withdrawals are not taxable. Unused contribution room can be carried forward, and can be restored after making withdrawals.

As with RRSPs and spousal RRSPs, spouses or common-law partners can be named as beneficiaries<sup>2</sup> and can contribute to their partners' TFSAs. On death, if a spouse/partner has been named as the beneficiary, it is possible to maintain the tax-free status of the earnings in a TFSA. The assets in the TFSA can be transferred to the surviving spouse without any impact on the survivor's contribution room. In cases of marriage

<sup>1</sup> Pending royal assent.

<sup>2</sup> Please note that in Quebec, the fact that a product is registered does not automatically entitle the individual to designate a beneficiary.

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or common-law partnership breakdown, funds can be transferred from the TFSA of one partner to the other, without affecting the contribution room of either.

Please consult with a financial and/or tax advisor for more detailed information and for advice specific to your situation.

## TFSA versus RRSPs

Provision	TFSA	RRSP
age limit	no upper age limit	up to age 71
maximum annual contribution	\$5,000	\$21,000 (2009 tax year)
carryforward provision	yes	yes
contributions tax deductible	no	yes
tax on capital gains and other investment income	no	no
tax on withdrawals	no	yes
income/withdrawals affect eligibility for federal income-tested benefits and credits	no	yes
withdrawals restore contribution room for future savings	yes	no
spousal contributions	yes	yes
limit indexed	yes	yes



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