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UNDERSTANDING THE TAX-FREE SAVINGS ACCOUNT

There has been some uncertainty regarding the TFSA ever since it was first introduced. Below is some information on it.

If you have any questions about the TFSA that haven't been addressed here, or regarding any other financial matter, we'll be happy to help. Simply give us a call at your convenience.

It's not just a savings account for rainy day money. The TFSA is a terrific long-term investment account. You can set money aside in eligible investments and watch those savings grow tax-free throughout your lifetime. Unlike other types of accounts, all growth in this account is tax free! And that means that investing money in this account and allowing it to grow over the long term is a brilliant idea! Of course, you can withdraw your money any time you like, but as always, the longer you let it compound and grow, the more tax-free money you will amass.

How do I set up my TFSA? It's simple, we complete the form together and you're ready to go. And investing is even easier - you can mail a cheque or direct deposits can be made online from most banks to your non-registered account at DundeeWealth. Then e-mail or call us to let us know it's on the way, we'll contribute it from your non-registered account to your TFSA (no charges, no tax implications) and we can discuss your investment options with you. Investments in other DundeeWealth accounts may be eligible for contribution to your TFSA. Talk to us if you'd like to explore this option.

Are you retired or earning a pension income? A TFSA is an ideal investment vehicle for depositing surplus RRIF or pension income. It allows the ability to permanently tax-shelter non-registered GIC interest income. Deposits to a TFSA will not result in a claw back of government benefits like Old Age Security or the Guaranteed Income Supplement

Does the TFSA have to be converted into some other type of account at a particular age? No, there is no age threshold at which a TFSA must convert into a taxable account.

Would contributions and withdrawals have any impact on my eligibility for federal income-tested benefits, such as the Canada Child Tax Benefit or the Guaranteed Income Supplement? No. Income earned in your TFSA and/or withdrawals will have no effect on your eligibility for these types of benefits.

Do I have to set up my TFSA at a bank? No, banks are not the only place that you can set up your TFSA. If you have already set one up at a bank and would like to transfer it to DundeeWealth to be managed along with your existing accounts, it's a simple, no-charge procedure that we can help you with.

What types of investments can I hold in my TFSA? TFSA-eligible investments include mutual funds, GICs, stocks, bonds, and savings, all in one account.

You can have more than one TFSA. Many people don't realize this. You can have as many as you want, however you can only contribute a maximum of \$5,000 per calendar year (the TFSA dollar limit is \$5,000 in 2009 and will be indexed to inflation and rounded to the nearest \$500 in later years). In other words, it's not \$5,000 per plan per calendar year, but \$5,000 PER PERSON per calendar year. Obviously the less TFSA accounts you have, the easier it will be to manage them.

Can I withdraw money from my TFSA? While we encourage clients to use this account for long-term tax-free savings, you can withdraw money from your TFSA at any time (unless you are invested in a time-restricted product such as a GIC with a maturity date, then restrictions may apply). The amount you withdraw can be put back in your TFSA starting the following year without impacting your contribution room.

Can I contribute to my spouse's TFSA? Yes, you can contribute to a spouse's TFSA without affecting your own contribution room. Income attribution rules which currently govern RRSPs do not apply to TFSAs.

Contributions to a TFSA are not deductible for income tax purposes. Also, interest on money borrowed to invest in a TFSA is not tax deductible. However, the income generated in such an account (for example, investment income and capital gains) is tax-free, even when it is withdrawn. The TFSA dollar limit is \$5,000 in 2009, and will be indexed to inflation and rounded to the nearest \$500 in later years. Unused TFSA contribution room can be carried forward to later years. The total of TFSA withdrawals in a calendar year is added to the TFSA contribution room for the next calendar year.

How will I know what my TFSA contribution room is for a given tax year? The CRA (Canada Revenue Agency) will provide details on your contribution room. They intend to report this amount on your Notice of Assessment and also through the "My Account" function on the CRA web site.

What happens if I contribute more than my contribution room? Similar to an RRSP, you will be charged an over-contribution penalty by the CRA. Currently it is 1% per month on your excess contribution amount, however please see <http://www.fin.gc.ca/n08/09-099-eng.asp> for proposed technical changes in this area.

Can I make the eligible contribution in cash only or can the contribution also be made 'in kind'? Individuals will be allowed to make in kind contributions to their TFSA, provided that the property is a qualified investment. As is the case with RRSPs, the individual will be considered to have disposed of the property for its fair market value at the time of the contribution. If the fair market value exceeds the cost of the property, the individual will have to report the capital gain in their income tax return. However, if the cost exceeds the fair market value, the resulting capital loss cannot be claimed. The amount of the contribution will be equal to the fair market value of the property.

Can TFSA assets be used as security for a loan? Yes, TFSA assets can be used as security for a loan.

Do I have Canada Deposit Insurance Corporation (CDIC) insurance on the investments held within the TFSA? All eligible deposits (e.g. GICs, cash) held within a TFSA are insured by CDIC and are afforded coverage to a maximum of \$100,000, separate from other deposits held by the same depositor at the same member institution.

Can a non-resident of Canada open a TFSA? No, TFSAs can only be opened by permanent Canadian residents.

Can I contribute to a TFSA while I'm a non-resident? Any contributions made while an individual is a non-resident will be subject to a special tax of one per cent per month of the contribution until the individual withdraws and designates the withdrawal as a withdrawal of the non-resident contribution or, if earlier, the individual becomes resident in Canada. In addition, as no contribution room would accrue for any year throughout which the holder is a non-resident, the individual will be subject to another one per cent tax per month of the contribution on any excess TFSA amount.

Can non-residents make withdrawals from their TFSAs? Yes. Any withdrawals made during the period that the holder is a non-resident will be added back to the holder's unused TFSA contribution room in the following year but will only be available when the holder subsequently resumes residency status in Canada.

As a TFSA plan holder, can I name my spouse or common-law partner as the successor holder on the TFSA plan documents? Yes. This means that upon the death of the plan holder, the successor holder will become the new plan holder and the TFSA will maintain its tax exempt status. Alternatively, you may designate a beneficiary(ies) to receive the funds in your plan upon your death. The beneficiary/successor holder option is available in all provinces and territories, except for Quebec.