

Tax Tips for TFSAs

10 Ways to Benefit from Contributing

With the launch of the new tax-free savings account January, 2009, you'd be hard pressed to find a client who could not benefit in some way from contributing up to \$5,000 to a TFSA. Here then is a list of the top 10 TFSA opportunities:

1. Emergency Funds

The TFSA, with its enormous flexibility, may be the ideal place to begin that proverbial "rainy day fund". Such emergency funds are often parked in high-interest savings accounts, guaranteed investment certificates or money market funds. In addition, the ability to re-contribute any amount withdrawn from the TFSA beginning the year after withdrawal allows any funds accessed in an emergency to be repaid at any time in the future.

2. High-Risk Investment Speculation

On the other side of the investment spectrum, the TFSA can also be the perfect place to hold equities and other riskier assets to generate unlimited tax-free returns.

3. Collateralized Lending

Unlike an RRSP or RRIF, you may be able to pledge your TFSA assets as collateral for a loan or a secured line of credit, thus perhaps getting a lower interest rate than an unsecured line. Clearly this will be of greater advantage as the TFSA balance builds up over years.

4. Protecting Government Benefits

For Canadians with low and modest incomes, the TFSA can help preserve certain income-tested government benefits since TFSA withdrawals are not considered to be income. For a young person receiving the GST credit or the Child Tax Benefit or for a senior living on the Guaranteed Income Supplement (GIS) or the Old Age Security (OAS), the ability to protect these benefits even when funds are withdrawn from a TFSA is a major victory of sorts.

5. Tax Rate Planning

For younger individuals with limited funds who are currently in a low tax bracket but who expect to be in a higher tax bracket upon retirement, contributing to a TFSA may be preferred to making an RRSP contribution. Ultimately, as you get into a higher tax bracket before retirement, the TFSA money can be moved into an RRSP, tax-free, restoring TFSA contribution room beginning the following year.

6. Retirement Planning

Taxpayers who can't contribute to an RRSP (for example, someone over age 71, or with no earned income, or with a large pension adjustment) can use the TFSA to invest for their retirement on a completely tax-free basis and with no forced minimum withdrawal – ever!

7. Education Planning

While RESPs are expected to remain the vehicle of choice primarily because of the federal and provincial grants, for savings beyond the level needed to maximize the grants, TFSAs offer another flexible alternative.

8. Income Splitting with a Spouse and Kids (over 18)

If you have a spouse or partner, you are permitted to give him or her funds to open up their own TFSA without having the normal attribution rules for income and capital gains apply. Similarly, you can give each child over 18 money to open up his or her own TFSA with no attribution consequences. Note that you cannot open an "in-trust for" TFSA.

9. Estate Planning

The entire TFSA will be tax-free upon death. The TFSA monies can be rolled over to a surviving spouse or partner's TFSA after death to maintain the tax-free status of the account. If left to any else, future income and gains will be taxable.

10. Emigration (Non-Resident) Planning

Finally, individuals wishing to emigrate from Canada can still hold a TFSA tax-free for the rest of their lives and pay no Canadian tax on continued TFSA growth. No future contributions would be permitted as a non-resident without paying a penalty tax. Of course, the other country will likely tax the earnings and growth in the TFSA annually.