Manulife Securities

MANULIFE SECURITIES INCORPORATED
MANULIFE SECURITIES INSURANCE INC.

FINANCIAL STRATEGIES FROM

KURT ROSENTRETER & BRANDON WHITBY

CHARTERED ACCOUNTANT • INVESTMENT ADVISORS • INSURANCE AGENTS • ALL IN ONE

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Tax Free Savings Accounts

There is a new opportunity to save taxes starting in January 2009. The Tax Free Savings Account (TFSA) was introduced in the last Federal Budget to allow Canadians, aged 18 or older, to open up savings accounts that will earn investment income with no tax applicable.

You can open up a TFSA with us (a brokerage), an insurance company, the bank or other financial institutions offering investment products or savings accounts.

Contributions and Withdrawal Rules

- The TFSA provides $5,000 of contribution room starting January 1, 2009.
- Each year you will get an additional $5,000 of contribution room.
- Money can be added or withdrawn from the account at any time throughout the year without tax consequences.
- Amounts that are withdrawn from the account will be added back to your $5,000 permitted contribution room – you don't lose the room.
- For those who do not maximize the annual limit of $5000, the unused room will be carried forward to future years for use.
- Any investment that is eligible for a RRSP account would be an approved investment for the TFSA. This would include GIC's, bonds, mutual funds, stocks, income trusts and ETF's.

Tax Treatment of TFSA

- All interest, dividends and capital gains earned inside the TFSA are not taxed.
- There is no tax deduction for contributions to a TFSA.
- Money withdrawn is not taxable.
- Interest on money borrowed to invest in a TFSA will not be tax deductible.
- Moving money from a non registered account to a TFSA will trigger a disposition for tax purposes.
- Earnings compound tax free year after year.
- Accounts can only be held in Canadian dollars.

Financial Planning Opportunities

- For long term savings, your RRSP should still be your first contribution priority. Once this is maximized, the TFSA should be your second priority. Other taxable savings should be your third priority given you may pay the most tax on this kind of account compared to the other two.

- Paying down debt, particularly expensive debt (interest rate exceeding 6%) should be a priority ahead of starting a TFSA.

- For new investors who are struggling to get ahead and have not yet started saving, make your day to day bank account as your TFSA. Once you start to build financial wealth long term, then your TFSA can become more of a long term savings vehicle.

- In the Canadian tax system, interest income is the highest taxed form of investment earnings. It is most tax-smart to hold your fixed income interest bearing investments inside your RRSP and your TFSA, while holding your equity investments (stocks, funds, ETFs) in your taxable investment accounts. Dividends and gains from equity products attract much lower taxation which is why they are best held in a taxable account.

- There is no attribution of income between spouses and family members, so a primary income earner in a family can contribute money to each family member's TFSA and achieve excellent income splitting and tax minimization.

- Money can be saved into a TFSA via monthly savings programs or lump sums from any source.

- You cannot open up a TFSA for a young child – rules state the account holder must be age 18 so an RESP is still the best tax smart way to save for kids.

- Retired Canadians can put money into the TFSA each year, avoid paying tax on the earnings from this account and minimize clawback of their Old Age Security Pension as a result.

- When is it better to contribute to a TFSA than an RRSP? There are two situations in our opinion: someone with a rapidly rising income that is not currently in the top tax bracket can accumulate money to contribute to an RRSP later; or someone saving to buy a home and would rather not draw money out of their RRSP under the Home Buyer's Plan for the home deposit.

- Anyone saving for a special event – a wedding, a new car, home renovations, a big trip or other needs would be well served to hold the money in a TFSA and buy a safe interest bearing investment.

How Kurt and Brandon can assist you in your TFSA account planning
Let's be clear: a TFSA is a tax structure first and an investment account second. It requires tax planning, sometimes of a sophisticated nature. If you would like to have us factor the TFSA into your overall financial plan and second, have us consider tax planning strategies over time that include the TFSA and all of your assets, savings strategies and investment products, then please open your TFSA account with us in January 2009.
With Kurt being a Chartered Accountant, tax planning is always front and centre in any planning we do with you!

Next Steps
We will be working extra hard in January to get accounts set up and would appreciate getting an email or a phone call now to say whether you want us to contact you about opening an account.

We will then be in touch in January about paperwork to set up the new account.

Please call or email if you have any questions about the TFSA.

Contact us to answer your questions, schedule a meeting, get a second opinion, refer a friend, order a book, receive a brochure on services and fees, create a financial plan and more. *MEMBER CIPF.

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