

Earn tax-free investment income with a TFSA

Introduced by the federal government in 2008, the tax-free savings account (TFSA) is a flexible investment savings account that allows you to earn tax-free investment income (including capital gains). It's not a traditional savings account, rather another type of investment account, just as registered retirement savings plans (RRSPs) or registered education savings plans (RESPs) are plan types.

The TFSA can be used to meet a variety of financial security planning needs, such as:

- Retirement saving
- Major purchases
- Income splitting
- Saving for vacation
- Parental leave

Eligibility

Every resident of Canada who is age 18 or older and files an income tax return is eligible to contribute to a TFSA.

Why have a TFSA?

Today, if you save or invest outside of an RRSP, you receive a T3 or T5 tax slip each year and claim the investment income on your tax return. When you contribute to a TFSA, you're not taxed on the investment income earned inside this account, which results in tax savings.

Contributions: \$5,000 per year for life

Starting in 2009, the annual contribution limit is \$5,000, regardless of how much income you earn. This amount will be indexed annually based on increases in the consumer price index in \$500 increments.

Unused contribution room can be carried forward like an RRSP, so if you can't contribute the maximum amount in any given year you can wait and contribute larger sums in the future when you have more money available. When withdrawals are made, your contribution room is not lost and the amount of the withdrawal is added back to your contribution room in the following year.

Although contributions aren't tax deductible, you don't pay tax when you take the money out, unlike an RRSP, and you don't pay tax on the investment income you earn while your money grows inside a TFSA.

Withdraw any time, for any purpose

The money you accumulate in a TFSA can be withdrawn at any time without tax consequences. There are no time limits for withdrawing and no restrictions on how you spend your money.

Withdrawals increase your contribution room in the year following the withdrawal, allowing you to save again for another purpose.

Contact me today to determine how the TFSA fits into your financial security plan.

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