

A TFSA can work for you

Tax-Free Savings Accounts are valuable for all Canadians including seniors who are no longer eligible to contribute to an RRSP

By Melanie Hall-Szyszkiewicz

One year ago, the federal government introduced the Tax-Free Savings Account (TFSA). It has been called the single most important personal savings vehicle since Registered Retirement Savings Plans (RRSP) were launched in the late 1950s. Is the TFSA really that good – and should you have one? The answers are yes – and they are especially welcome for seniors over the age of 71, who can no longer add to their RRSP. Here's why:

Tax-free growth. As a Canadian adult, you are eligible to save up to \$5,000 a year in TFSA investments that grow in a tax-free basis.

Tax-free withdrawals. You can make TFSA withdrawals at any time for any reason – and the money you withdraw is tax free.

Make the most of your contribution room. You can contribute \$5,000 a year plus the total of withdrawals made in the prior year. And if you don't use all of your contribution room right away, it accumulates year after year – fill it at any time you choose. By the way, a contribution to investments held within a TFSA does not affect RRSP contribution room (for those under 71).

Investment flexibility. Investments that are TFSA eligible can be the same as those available for investments held within RRSPs, including mutual funds, money-market funds, Guaranteed Investment Certificates (GICs), publicly traded securities and government and corporate bonds.

Personal financial flexibility. A TFSA works well for short- or long-term financial goals such as:

- A ready source of emergency funds.
- Saving for a new car, cottage or vacation.

- Saving for the down payment on a new home or starting your own business.
- Reducing taxes on your non-registered investments.
- Adding to your retirement savings.
- Adding to education savings beyond RESPs.
- Splitting income with your spouse to minimize taxes.

And TFSA withdrawals don't affect your eligibility for income-tested federal benefits such as Old Age Security (OAS).

There are other ways in which a TFSA could work for you. Your professional advisor can take a close look at your personal situation and help you get the most from a TFSA.

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