BMO NESBITT BURNS

Having a TFSA works. Get it working for you.

The Tax-Free Savings Account (TFSA) was introduced in 2009 and offers Canadians a unique and flexible planning opportunity to save for their financial goals. Your contributions to a TFSA are not tax deductible for income tax purposes, however your savings grow tax-free inside your account. In addition, there is no tax payable when you make a withdrawal from your TFSA.

The savings you accumulate in your TFSA can be used at anytime and for any purpose – it's completely up to you. Whether you are saving for a new car or a home purchase, your child's education or your own retirement, a TFSA can help you reach your goal sooner.

Contributions

Canadians age 18[1] and over can contribute $5,000[2] annually to a TFSA. With the application of the indexation increase of 2.8% for 2012 and rounding the result to the nearest $500, the TFSA dollar limit for 2012 remains at $5,000. Any unused contribution room, dating back to 2009 or the year you turn 18, carries forward so it can be used in a future year. So if you have never contributed to a TFSA, your contribution limit for 2012 will be $20,000. Your annual TFSA contribution limit is reported on your annual Notice of Assessment from Canada Revenue Agency (CRA). In general, a TFSA is permitted to hold similar types of investments as an RRSP.

Withdrawals

Withdrawals from a TFSA are tax-free. An amount withdrawn in the current year will be added to your contribution room at the beginning of the following year. For example, assume a $5,000 contribution is made in January 2011, followed by a withdrawal of $5,400 ($5,000 contribution + $400 gain) in October 2011. On January 1, 2012, an additional $5,400 will be added to your TFSA contribution room.

Other Planning Opportunities

Given the tax-free nature of the investment income and flexibility regarding withdrawals and re-contributions, there are many opportunities that you and your Investment Advisor can explore to incorporate a TFSA into your overall wealth management plan.

- TFSAs offer a significant income splitting opportunity. You can provide funds to your spouse, common law partner or adult children to allow them to contribute to their own TFSA (subject to their personal TFSA contribution limit). None of the income earned within their TFSA is attributed back to you.
- Consider holding investments in a TFSA that would otherwise be taxed at high rates outside a registered account, such as interest income.
- Since neither the income earned nor withdrawals within a TFSA will affect your eligibility for federal income-tested benefits and credits (e.g. Old Age Security, Child Tax Benefit, GST credit, age credit), consider depositing your surplus RRIF or pension income into your TFSA.

Please contact your BMO Nesbitt Burns Investment Advisor for more information on how to get a TFSA working for you.

[1] Individuals must be the age of majority in their province of residence to open a TFSA with BMO Nesbitt Burns. For B.C., N.S., N.B., Newfoundland., Yukon, NorthWest Territories and Nunavut, the age of majority is 19.
[2] The $5,000 annual contribution limit is indexed to inflation and increases will be made periodically in $500 increments.

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