

**Tax Tip**  
**Week of December 15, 2008**

**Tax Free Savings Accounts**

Effective January 1, 2009, individuals who are 18 years of age or older can open a Tax Free Savings Account. The maximum annual contribution is \$5,000 and investment income generated within a TFSA is not taxable. In order to maximize the benefit of these plans, consider the following:

- open the account in 2008. Even though you may not be able to make a deposit until calendar 2009, opening the account immediately can be a time saver. One individual opened his TFSA in early December. The account was opened at one of Canada's largest financial institutions. In order to open an account, the individual had to visit a branch and spent over 20 minutes filling out the forms. There is going to be a rush in the new year. Beat the rush and do it now, before attempting to open a Tax Free Savings Account during RRSP season
- it may be prudent to shop around as the fees vary by institution. For example, one large institution charges a \$50 annual fee. If an individual in a 25% tax bracket and deposits \$5,000 to purchased a GIC at 3.5%, the results would be as follows:

GIC	\$5,000
Rate	<u>3.5%</u>
Income	\$ 175
Tax @ 25%	\$43.75
Annual fee	\$50.00
Net loss	\$6.25

- one of the key fees for these plans is a charge for withdrawals. One large financial institution charges \$25 per withdrawal, whereas others advertise that there is no charge for a withdrawal from the plan. Be sure to shop the market, rather than assuming all plans are alike
- consider opening a TFSA for everyone in the family. The use of loans or gifts can reduce a family's tax bill