

## A Simple Plan? Tax-Free Savings Account (TFSA) Rules Clarified

### The Basics

Introduced in 2009, a registered Tax-Free Savings Account allows Canadians 18 years of age and older to save up to \$5,000 each year, tax free. TFSA investments can include term deposits, credit union shares, guaranteed investment certificates, mutual funds, publicly traded securities, as well as government and corporate bonds. Unlike an RRSP, contributions to a TFSA are not tax deductible.

### The Benefits

Interest and investment income earned in a TFSA—including capital gains—are not taxed on withdrawal and there are no restrictions on how the money is spent. Funds can be withdrawn without penalty and any amount you withdraw can be put back into the tax-free account without reducing your contribution limit.

But read on: Since the inception of the program, over 70,000 Canadians have managed to over-contribute to their TFSA.

### Contribution Room

Eligible Canadians can contribute up to \$5,000 per year in a TFSA. Similar to annual RRSP contribution limits, unused TFSA contribution room can be carried over to the **following tax year**. For example, if you contributed \$4,000 of your allowable \$5,000 to a TFSA in 2009, in 2010 you are eligible to contribute \$6,000 (\$1,000 of the unused portion from 2009, plus \$5,000 for 2010).

### Over-Contributions

If you have multiple TFSA investments, it's important to keep track of each so that you don't exceed contribution room in your TFSA. Following the example above, if you over-contribute to your TFSA by contributing a total of \$7,000 in 2010 (an over-contribution of \$1,000), you may be subject to a one-per-cent penalty for each month the over-contribution stays in your account. True, this process seems straightforward enough, but withdrawing funds from the TFSA has caused confusion among thousands of Canadians.

Although funds can be withdrawn from your TFSA at any time without penalty, you can't simply re-contribute the funds to your account whenever you want—even if you have unused contribution room. You can re-contribute funds withdrawn from your TFSA, **up to** the allotted \$5,000 per year, but you have to wait **until the following tax year** before you can put the funds back.

## **The Good News**

The Canada Revenue Agency, acknowledging the lack of clarity around the TFSA rules, has announced that it will give Canadians a break and not levy penalties for over-contributions made in 2009.

## **Pack Responsibly**

Nelson & District Credit Union will strive to provide members with solutions to help them pack responsibly for their unique life-stages and reach their viewpoints. This process is called the Financial Hike.

For tax information and support, contact your trusted accountant. For financial & insurance services, please contact your financial services representative at Nelson & District Credit Union or Investment Advisor at Allard Insurance Agencies Ltd.

For a financial consultation, email: [thehike@nelsoncu.com](mailto:thehike@nelsoncu.com)

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