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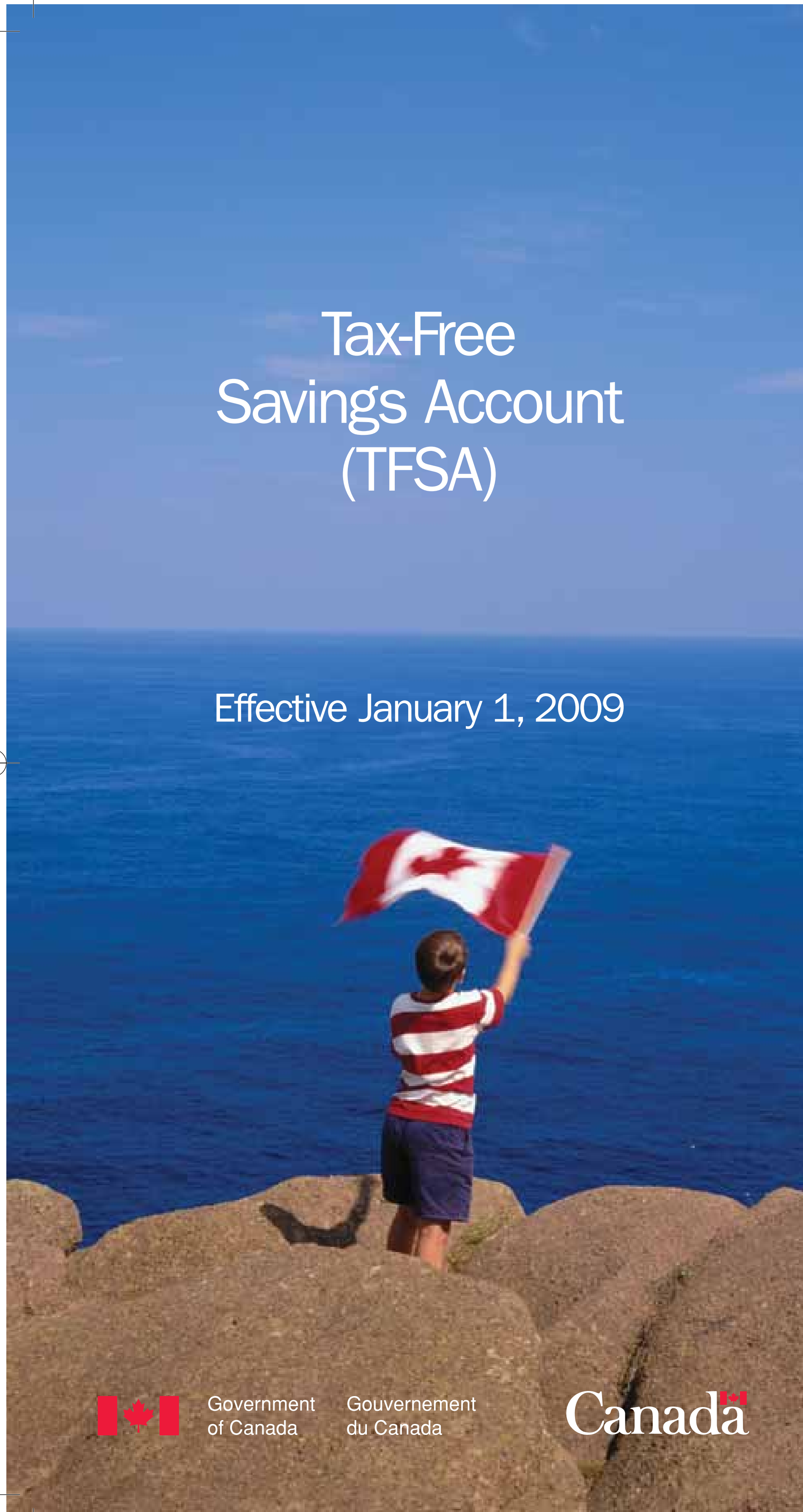


Tax-Free Savings Account (TFSA)

Effective January 1, 2009

Government of Canada / Gouvernement du Canada

Canada

Tax-Free Money for What Matters to You

Canadians need to save for many different purposes over their lifetimes. Reducing taxes on savings can help.

That's why the Government has introduced a new Tax-Free Savings Account (TFSA). It's the single most important personal savings vehicle since the introduction of the Registered Retirement Savings Plan (RRSP).

The TFSA will allow Canadians to set money aside in eligible investment vehicles and watch those savings grow tax-free throughout their lifetimes. TFSA savings can be used to purchase a new car, renovate a house, start a small business or take a family vacation.

Canadians from all income levels and all walks of life can benefit.

How the TFSA Works

- Starting in 2009, Canadians aged 18 and older can save up to $5,000 every year in a TFSA.
- Contributions to a TFSA will not be deductible for income tax purposes but investment income, including capital gains, earned in a TFSA will not be taxed, even when withdrawn.
- Unused TFSA contribution room can be carried forward to future years.
- You can withdraw funds from the TFSA at any time for any purpose.
- The amount withdrawn can be put back in the TFSA at a later date without reducing your contribution room.
- Neither income earned in a TFSA nor withdrawals will affect your eligibility for federal income-tested benefits and credits.
- Contributions to a spouse's TFSA will be allowed and TFSA assets can be transferred to a spouse upon death.

How Is a TFSA Different From a Registered Retirement Savings Plan?

An RRSP is primarily intended for retirement. *The TFSA is like an RRSP for everything else in your life.*

Both plans offer tax advantages, but they have key differences.

- Contributions to an RRSP are deductible and reduce your income for tax purposes. In contrast, your TFSA savings will not be deductible.
- Withdrawals from an RRSP are added to your income and taxed at current rates. Your TFSA withdrawals and growth within your account will not—they will be tax-free.

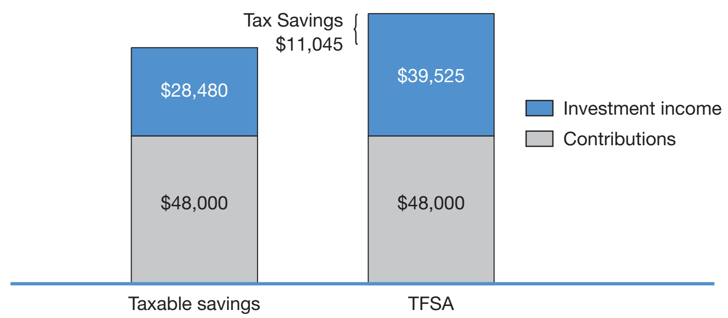
An Effective Vehicle for Your Lifetime Savings Needs

- Robert withdraws $20,000 tax-free from his TFSA to renovate his home. Robert will be able to re-contribute the $20,000 to his TFSA in the future without affecting his other available contribution room. Had he used his RRSP savings, he would have needed to withdraw up to $37,000 to pay taxes and cover the cost of the renovation, and this contribution room would have been lost.

Benefits of Saving in a TFSA

Because capital gains and other investment income earned in a TFSA will not be taxed, a person contributing $200 a month to a TFSA for 20 years will enjoy additional savings of $11,045 compared to saving in an unregistered account.

TFSA Versus Unregistered Savings



Notes: Combined federal and provincial tax savings based on a $200 monthly contribution for 20 years and a 5.5 per cent rate of return. For unregistered savings, a 21 per cent average tax rate on investment income is assumed (based on 40 per cent interest, 30 per cent dividends and 30 per cent capital gains, and a middle-income earning account holder).

A Flexible Account for a Lifetime of Savings

Not everyone is able to save each and every year.

Those who cannot contribute $5,000 in a given year will be able to carry forward their unused contribution room to future years.

In addition, Canadians may want to use their savings—to buy a new car or a cottage, or start a small business—and the full amount of withdrawals can be put back into the TFSA in the future.

Couples often save and plan together, so Canadians can contribute to their spouse's or common-law partner's TFSA, depending on the spouse's or partner's available room.

Full Flexibility to Withdraw and Re-contribute

- Gillian saves $3,000 a year for 10 years in a TFSA. She decides to start a small business and withdraws $40,000 of her TFSA savings, tax-free. Later, Gillian decides to re-contribute the $40,000 to her TFSA. She may do so without reducing her other available contribution room.

Early Savings to Meet Many Needs

Canadians will also benefit by using the TFSA to start saving early for future needs and goals.

Meeting Unforeseen Needs

- Annette and Roger, a single-earner couple, have been saving in their TFSAs for seven years. Together, they have saved $59,000. To pay for extensive repairs to the foundation of their house, they withdraw $40,000 tax-free. They will be able to re-contribute this amount in the future.

Benefits for Seniors

The TFSA will also provide seniors with a tax-free savings vehicle to meet ongoing savings needs, something they have only limited access to once they reach age 71 and are required to begin drawing down their registered retirement savings.

Seniors are expected to receive one-half of the total benefits provided by the TFSA.

Savings for Post-Retirement Needs

- François and Evelyn are retired and living comfortably on François' pension. Evelyn also receives a small pension based on her years of work after raising their children. They would like to save Evelyn's pension each month and use it to spend the winter in Florida. The TFSA will provide them with an effective means to save for their trip south each year.

No Impact on Income-Tested Benefits

Neither income earned in a TFSA nor withdrawals will affect your eligibility for federal income-tested benefits and credits, such as the Guaranteed Income Supplement and the Canada Child Tax Benefit. This will improve incentives for people with low and modest incomes to save.

It is estimated that, in the first five years, over 75 per cent of the benefits of TFSA savings will go to individuals in the two lowest income tax brackets.

Benefits for Low- and Modest-Income Canadians

- Alexandre and Patricia, a modest-income couple, expect to receive the Guaranteed Income Supplement (GIS) in addition to Old Age Security and Canada Pension Plan benefits when they retire. They earn $2,000 a year in interest income from their TFSA savings. Neither this income, nor any TFSA withdrawals, will affect the GIS benefits (or any other federal income-tested benefits and credits) they receive. If this $2,000 were earned on an unregistered basis, it would reduce their GIS benefits by $1,000.

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