CREDIT UNION CENTRAL
NOVA SCOTIA

Tax-Free Savings Account (TFSA) – Questions & Answers

Customer-owners have a new way to save money, with the new Tax-Free Savings Account (TFSA). You can save or invest money without paying tax on the income it earns and you also can withdraw it tax-free. Canadians now have flexible account options for a lifetime of savings needs.

The TFSA was introduced by the Government of Canada in Budget 2008 and received Royal Assent on June 18, 2008 and was made available on January 1, 2009. To help you understand the TFSA better, we've put together some Frequently Asked Questions (FAQs) based on the Government's information.

Here is a link to the government's TFSA calculator to help you see how much money you could save. And if you want to get a head start on saving contact us. http://www.budget.gc.ca/2008/mm/calc_e.html .

How Popular Will the TFSA Be?

A CIBC World Market reports states, "we project that by 2013, the TFSA market will grow to a $115 billion market—with a cumulative tax savings for Canadians of roughly $2 billion." [A]

What is the Tax Free Savings Account?

The TFSA is a registered savings account that allows taxpayers to earn investment income tax-free inside the account. Contributions to the account are not deductible for tax purposes, and withdrawals of contributions and earnings from the account are not taxable.

TFSA savings can be used for a variety of needs, for example: to purchase a new car, renovate a house, start a small business or take a family vacation.

When will it be available?

TFSA became available on January 1, 2009.

Who is eligible to open a TFSA?

Any individual (other than a trust) who is a resident of Canada and 18 years of age or older would be eligible to establish a TFSA. The only requirement will be that the individual must have a Social Insurance Number when the account is opened. There will be no limit on how many TFSAs each person can set up, keeping in mind that the allowable yearly tax-free contribution is a combined total of all of these accounts.

Credit Union Central of Nova Scotia (CUCNS) has received legal counsel that the Atlantic credit unions can offer the TFSA to people aged 18 to 19. Credit unions fall under different legislation than the banks. The banks' websites states: customers that live in BC, NL, NS and NB can not open a TFSA until 19, which is the age of majority in these provinces. But, they will accumulate contribution room from the time they are 18.

How would I know what my TFSA contribution room is for a given tax year?

The Canada Revenue Agency (CRA) will determine TFSA contribution room (based on information provided by issuers) for each eligible individual who files an annual T1 individual income tax return.

Individuals who have not filed returns for prior years (because for example, there was no tax payable) would be permitted to establish their entitlement to contribution room by filing a return for those years or by other means acceptable to the CRA.

If I don't have the money to invest in a given year, would I be able to use any unused contribution room in a future year?

Yes, the 2008 budget proposes no limit on the number of years unused contribution room could be carried forward.

How much can you contribute to a TFSA per year?

Each year you could contribute an amount up to your contribution room for the year. The TFSA contribution room will be determined by the CRA for each eligible individual who files an annual income tax return.

Your contribution room would be made up of three amounts:

- First: Each year you would be allocated and allowed to contribute at least $5,000 (this annual amount will be indexed to inflation and rounded to the nearest $500 on a yearly basis).
- Second: Any withdrawals made during the year would be added to the contribution room for the next year.
- Third: Any unused contribution room from the previous year would be added to the contribution room for the year.

Credit Union Central of Nova Scotia
PO Box 9200, 6074 Lady Hammond Road
Halifax, NS B3K 5N3

Tel (902) 453-0680
Toll Free (800) 668-2879
Fax (902) 455-2437

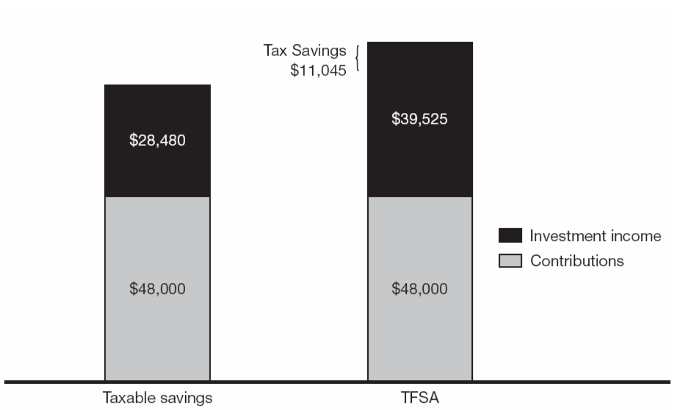
For example (assuming no indexing):

- In 2009 you would be allocated and allowed to contribute up to $5,000. If you only contribute $2,000, an amount of $3,000 would be carried forward to 2010.
- Your contribution room for 2010 would then be $5,000 plus $3,000, or $8,000.
- If in 2010, you do not contribute but decide to withdraw $1,000, your contribution room for 2011 would be $5,000, plus $8,000 (carried forward from 2010), plus the $1,000 withdrawn, or $14,000.

What is the main benefit of saving in a TFSA?

Because capital gains and other investment income earned within a TFSA will not be taxed, an individual contributing $200 a month to a TFSA for 20 years will accumulate about $11,045 more in savings than if the investment had been made in a taxable savings vehicle (unregistered account).

Returns from Savings in a TFSA Compared to Taxable Savings



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

Would there be any restrictions on withdrawals?

No, you can withdraw any amount in the account for any reason. The only condition being that you have to wait until the following calendar year to replace it.

How can the TFSA help me with my savings needs through my lifetime?

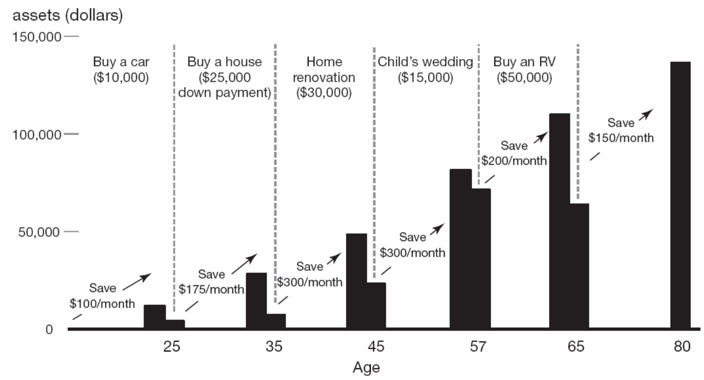
All Canadians have a reason to save to fulfill important lifetime goals and aspirations. Chart 3.6 provides an example of how a TFSA could help you achieve these objectives.

As you begin to work, you are able to contribute $100 a month to your TFSA. By age 25, you have accumulated $12,000—enough to purchase your first car for $10,000.

You continue to save in your TFSA to finance other major purchases: a down payment on a new home, a home renovation to make it larger, a child's wedding and then an RV to enjoy in retirement.

By saving regularly in a TFSA throughout your life, you will be able to finance these purchases and still accumulate about $135,000 by the time you are 80. This is about $40,000 more than you would have accumulated had you saved on an unregistered basis.

Lifetime of Savings Needs



Note: Amounts expressed in constant dollars and investments assumed to earn a real rate of return of 3.5% (5.5% nominal minus 2% inflation). Tax savings calculated using an average combined federal-provincial tax rate of 21% on investment income, consistent with a middle-income earner investing in a balanced portfolio (40% interest, 30% dividends and 30% capital gains.) Source: http://www.budget.gc.ca/2008/plan/chap3b-eng.asp

What kind of investments can you hold in a TFSA?

A TFSA would generally be permitted to hold the same investments as a registered retirement savings plan, such as:

- GICs, term deposits, high-interest savings accounts
- mutual funds
- shares
- bonds, debentures, notes, mortgages

Where a TFSA holds a non-qualified investment, a tax of 50% of the fair market value (FMV) of the non-qualified investment will be applied.

What kinds of investments are prohibited for the TFSA?

You are not permitted to invest in entities where you do not deal at arm's length. Where a TFSA holds a prohibited investment, a tax of 50% of the fair market value (FMV) of the prohibited investment will be applied.

What if I contribute excess amounts in my TFSA?

Similar to an RRSP, excess contributions to a TFSA will be subject to a 1% per month penalty tax until withdrawn.

How will TFSAs be taxed?

The big advantage to the TFSA is that any income and gains on investments held within it will not be taxed either while held in a TFSA or upon withdrawal, hence the name – Tax-Free Savings Account.

What if I borrow to invest in my TFSA?

Since the income earned inside a TFSA along with TFSA withdrawals are non-taxable, you won't be able to write off any interest expense on funds borrowed for the purpose of investing in a TFSA.

Could I use my TFSA assets as security for a loan?

Unlike RRSPs, which cannot be used as collateral for a loan (unless you want your RRSP deregistered and immediately taxed), TFSA assets can be used as collateral. This may facilitate investors in obtaining secured credit at more favorable rates. [Note: For the Atlantic Credit Unions trusteed by Concentra Financial, *TFSAs as security on loans* is dependent on the government approving the "Ways and Means" motion to the Income Tax Act that was tabled in Parliament on November 27, 2008]

Can I give my spouse or partner funds to contribute to a TFSA?

Normally, the attribution rules contained in the Income Tax Act block attempts at splitting either income or capital gains between spouses or partners by attributing such income or gains back to the original spouse or partner. For example, if funds are gifted or loaned interest-free to a spouse to enable him/her to acquire investments *outside* of a TFSA. the transferor spouse is required to report an income that is earned on the investment .

The federal budget introduces an exception to the attribution rule stating that the rules will not apply to any income or gains earned in a TFSA derived from a spouse or partner's contributions. If you give or loan funds to your spouse to make a TFSA contribution, these attribution rules will not apply. As a result, loaning or gifting money to a spouse or common-law partner to invest in a TFSA will become a new income splitting strategy.

What is the effect on income-tested government benefits?

One of the biggest criticisms of the current RRSP system is that when funds are withdrawn upon retirement, not only are they taxed at the retiree's marginal tax rate, but in many cases the withdrawals affect the retiree's eligibility for income-tested government benefits and credits. These may include the Age Credit, the Guaranteed Income Supplement (GIS) or even Old Age Security (OAS) benefits.

The Government of Canada announced that since withdrawals from the TFSA are not considered to be "income," they will have no impact on government benefits or credits, such as GIS or OAS, or on the Canada Child.

What happens upon death?

The fair market value of the TFSA on the date of death will be received by the estate on a tax-free basis, but an income or gains accruing after the date of death will be taxable.

Individuals will be able to name a surviving spouse or partner as a "successor account holder", in which case the TFSA will continue to be tax-exempt. Alternatively, the assets of a deceased individual's TFSA can be transferred to a surviving spouse or partner's own existing TFSA contribution room.

What happens upon separation or divorce?

On the breakdown of a marriage or a common-law partnership, any amount from the TFSA of one spouse or partner can be transferred to the TFSA of the other while maintaining the tax-exempt status. Note that the transfer will not re-instate the contribution room of the transferor spouse or partner, nor will it be counted against the contribution room of the transferee spouse or partner.

What if you become a non-resident?

If you become a non-resident, you can still hold your TFSA and continue to benefit from the tax exemption on investment income and withdrawals, however:

- no contributions may be made to the TFSA and
- TFSA contribution room will not accumulate while you are a non-resident.

How is a TFSA different from a Registered Retirement Savings Plan (RRSP)?

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 contributions 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.

While the two plans are meant to be tax-neutral (see chart below), RRSPs will tend to be the better choice when the tax rate upon withdrawal is expected to be lower than the tax rate upon original contribution. Conversely, TFSAs will make more sense if your tax rate (including the effect of RRSP withdrawals on reduced income-tested benefits) will be higher upon ultimate withdrawal than it was when you contributed.

The after-tax rates of return on TFSA and RRSP savings are equivalent when effective tax rates are the same at the time of contribution and withdrawal: the value of the tax deduction available for RRSP contributions is equivalent to the value of withdrawing funds from a TFSA on a tax-free basis. The rate of return from saving in either a TFSA or an RRSP is superior to unregistered saving.

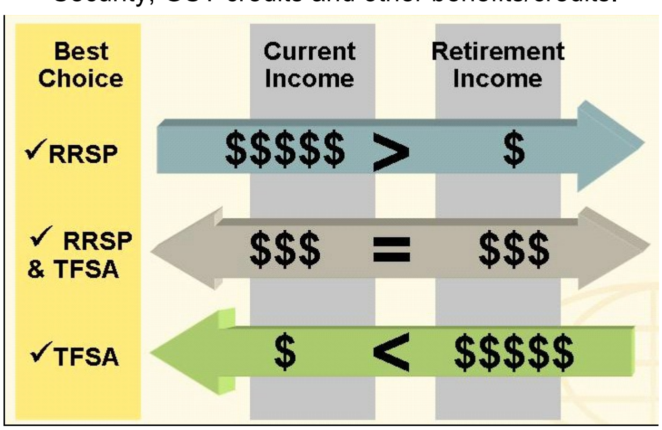
	TFSA	RRSP	Sav
Pre-tax income	$ 1,000	$1,000	$1,000
Tax rate (40%)	(400)	N/A	400
Net contribution1	$ 600	1,000	600
5.5% for 20 years	1,151	1,918	707
Gross proceeds	1,751	2,918	1307
Tax at withdrawal 40%	-	(1,167)	--
Net proceeds	$ 1,751	$1,751	$1,307
Net annual after-tax rate of return	5.5%	5.5%	4%

Note 1: Forgone consumption (saving) is $600 in all cases. In the RRSP case, the person contributes $1,000 but receives a $400 reduction in tax, thereby sacrificing net consumption of $600.

If I have available funds, what is my best investment strategy? [B]

Grant Thornton published the following details on Sept 5, 2008. Customers may ask a difficult question that depends on the specifics of their individual financial situation. Should I make an RRSP contribution, a TFSA contribution or pay down personal debt? This is a difficult question which numerous articles have been written since the Budget 2008, however there are a number of general comments that can be made.

- The issue of whether an RRSP or TFSA is better for you will depend on your current marginal rate of tax and what it will be in retirement. RRSPs are attractive where you are in a high income tax bracket now, but will be in a lower bracket on withdrawal of the funds. On the other hand, since a TFSA contribution does not produce a tax refund, you might consider investing in a TFSA in low income years. There can be added benefits from a TFSA if you expect to be in a lower tax bracket on retirement since TFSA withdrawals do not impact government benefits that are income tested such as Guaranteed Income Supplements, Old Age Security, GST credits and other benefits/credits.



- Many financial advisors advise a strategy of making an RRSP contribution, and then using the tax refund generated from the contribution to reduce your mortgage or other personal debt.
- When comparing a TFSA contribution to making a payment on your personal debt, the general rule will be that you should pay down your personal debt first, particularly if your investment rate of return in the TFSA is less than the rate you are paying on the personal debt.
- In many cases, the ideal situation is to maximize both your RRSP and TFSA contributions This can provide you with some interesting opportunities to manage your retirement income for example, by managing your marginal rate of tax and planning to avoid the OAS "clawback" and the reduction of other credits that are based on net income.

What types of Canadian will benefit from the TFSA?

The TFSA's versatility provides Canadians a method of savings for everything from retirement and their children's education to a rainy day fund for short-term needs. The TFSA will appeal to a broad range of Canadians of all ages, all life stages and income levels.

- **Low-income Canadians:** will find that the TFSA is the better choice to the RRSP as neither the income earned in the TFSA nor withdrawals from it will affect eligibility for federal income-tested benefits and credits.

  Typically younger Canadians are in a lower tax bracket and may prefer to forego up-front RRSP tax deductions in exchange for the tax-free growth and withdrawals of a TFSA - particularly if they expect to withdraw the money later when they're in a higher tax bracket.

  In the first five years, estimates are that over three quarters of the benefits of saving in a TFSA will go to individuals in the modest and low tax brackets.
- **Middle-class Canadians:** will find that it's generally still too close to call; both TFSA and RRSPs are suitable for this segment.
- **High-income Canadians:** will have the easiest choice, as they have the luxury of using both. If they find that their RRSP contributions are restricted by the current limit of $20,000, this is a welcome addition to contribution room. Excess assets can be invested in a TFSA for additional tax saving opportunities. Plus, the tax refund generated from RRSP contributions can be used to further increase TFSA contributions.
- **Seniors:** will find the TFSA an attractive channel to continue saving beyond the current cut-off age of 71 for making RRSP contributions. Seniors with excess cash flow (possibly from mandatory RRIF payments) can use a TFSA to accumulate tax free

growth. And, withdrawals from a TFSA can be made without fear of reducing government benefits such as Old Age Security and the Guaranteed Income Supplement. Moreover, upon the death of the TFSA account holder, assets can be transferred to a surviving spouse or child (or in fact anybody), tax-free without affecting the recipient's contribution room.[C]

- **Emergency Accounts:** Regardless of one's age and income bracket, everyone should take advantage of the flexibility of the TFSA and have their rainy day funds grow tax-sheltered with the comfort of knowing that they are easily accessible

Where can I find more information?

- We will keep our website and staff update with TFSA information as it become available to serve you.
- The government's TFSA Calculator can help you see how much money you could save. *http://www.budget.gc.ca/2008/mm/calc_e.html*
- The government's TFSA brochure (click PDF): http://www.budget.gc.ca/2008/pamphlet-depliant/pamphlet-depliant2-eng.asp
- The government's TFSA website: http://www.budget.gc.ca/2008/pamphlet-depliant/pamphlet-depliant2-eng.asp
- Government of Canada 2008 Budget: http://www.budget.gc.ca/2008/plan/chap3b-eng.asp
- Questions and Answers from the Canada Revenue Agency (CRA): http://www.cra-arc.gc.ca/gncy/bdgt/2008/txfr-eng.html

How does the TFSA compare to other registered savings vehicles?

The introduction of the TFSA will complement existing registered savings plans such as RRSPs and Registered Education Savings Plans (RESPs).

<table>
<tr><th>Savings Need</th><th>RRSP</th><th>RESP</th><th>TFSA</th></tr>
<tr><td>Education</td><td>▪ Withdrawals of up to $20,000 allowed under the Lifelong Learning Plan (amounts included in income if not repaid)</td><td>▪ Primary purpose of plan.
▪ Contributions attract grants of 20% or more up to $7,200.</td><td rowspan="5">▪ Contributions not deductible; neither investment income nor withdrawals included in income; withdrawals can be used for any purpose; withdrawals generate new contribution room
▪ Investment earnings and withdrawals will not affect eligibility for GIS or other federal income-tested benefits and credits
▪ Provides savings vehicle to meet any on-going savings needs</td></tr>
<tr><td>Home ownership</td><td>▪ Withdrawals of up to $20,000 allowed under the Home Buyers' Plan (amounts included in income if not repaid)</td><td rowspan="4">▪ Not intended for these purposes.</td></tr>
<tr><td>General purpose, pre-retirement</td><td>▪ Intended for retirement, although withdrawals allowed at any time.
▪ Withdrawals included in income</td></tr>
<tr><td>Retirement</td><td>▪ Primary purpose of plan.
▪ Allows tax-deferral on savings over working years (i.e. contributions deductible, investment income accrues tax-free).
▪ Withdrawals included in income and taken into account for purposes of GIS and other federal income-tested benefits and credits</td></tr>
<tr><td>General purpose, post-retirement</td><td>▪ Accumulated savings must be drawn down after age 71.</td></tr>
</table>

Note: The content herein is not intended to provide specific tax advice and should not be relied upon in this regard. This content has been provided by Budget 2008 and the Canadian Revenue Agency. Please consult your tax advisor to find out which strategies suit your tax situation.

This FAQs Document also contains content from the following reports:

A: CIBC World Markets Inc, "The New Tax-Free Savings Account: How Popular Will It Be?" September 11, 2008. http://research.cibcwm.com/economic_public/download/cwcda-080911.pdf

B: Grant Thornton, "The New Tax-Free Savings Account", Sept 5, 2008, http://www.grantthornton.ca/resources/insights/articles/Tax%20client%20releases/The%20new%20tax-free%20savings%20account.pdf

C: C.D. Howe Institute, "No Strings Attached: How the Tax-Free Savings Account Can Help Lower-Income Canadians Get Ahead", September 30, 2008, http://www.cdhowe.org/pdf/ebrief_64.pdf .

What are the differences between the TFSA, RRSP, Non-Registered Savings and RESPs?

	Tax Free Savings Account	**Registered Retired Savings Plans**	**Unregistered Savings Account**	**Registered Education Savings Plans**
Target use	For a lifetime of savings needs and retirement. Best option if your tax rate will be higher upon withdrawal than it was when you contributed.	Primarily intended for retirement. RRSPs will make more sense when the tax rate upon withdrawal is expected to be lower than the tax rate upon original contribution.	Savings are taxed once as the income is first earned and again as investment earnings accrue.	If saving for your children's education is a priority, keep in mind that the RESP could be a better option than the TFSA.
Age restrictions	**Maximum:** None **Minimum:** The account can be opened at age 18 and be kept for a lifetime. Note: Age of majority in NS, NL and NB is 19 which applies to TFSAs as a registered account.	**Maximum:** 71 years old then funds move to annuity or RRIF **Minimum:** None. Qualified income earned in previous year and a SIN available	**Maximum:** None **Minimum**: None	**Maximum**: Individual plan – up to end of 31st year of plan's existence. Family plan – must be made before beneficiary turns 22. **Minimum:** None
Maximum amount of contribution	Up to **$5,000** per year (unused contribution room can be carried forward indefinitely). You can have more than one account providing the total contribution does not exceed $5000.	The RRSP contribution maximum is determined by your earned income. The lesser of **18%** of the taxpayer's earned income and the annual contribution limit ($20,000 in 2008, in $21,000 in 2009.	No contribution limit	The lifetime contribution limit is $50,000 per beneficiary. No annual contribution limit. The Canada Education Savings Grant matches 20% of annual contributions to a max of $500 per child.
Contribution is tax deductible	**No**. There is no tax deduction for making a contribution to TFSA.	**Yes,** Contributions to an RRSP are deductible and reduces taxable income for that year.	**No**. No deduction on contribution	**No**. There is currently no tax deduction for contributions to these plans
Contribution room carry forward	**Yes.** Unused contribution room can be carried forward.	**Yes.** Unused contribution room can be carried forward.	Not applicable	The lifetime contribution limit for an RESP is $50,000
Investment gains (interest, dividend and capital gains) are not taxable	**Yes.** Income/gains tax sheltered. Withdrawal of income/gains not taxable.	**Yes**. The income/gains are tax sheltered until withdrawn. At that point, withdrawals are taxed as regular income (minus a few specific exceptions). You gain a tax-deferral advantage.	**No.** Interest/gains taxable in year of receipt.	**Yes.** offers tax-deferred growth (similar to the RRSP) as the contribution uses "after-tax" funds. Money does compound Income/gains are tax sheltered tax-free until withdrawn.
Withdrawals from the account are taxable.	**No.** Withdrawals from the TFSA are not taxable. Funds can be withdrawn at any time for any purpose. Withdrawals will not affect eligibility for federal income-tested benefits and credits including, the Age Credit, Old Age Security benefits or Guaranteed Income Supplement.	**Yes.** Withdrawals are taxable and normally not withdrawn until retirement.. A withdrawal under the Home Buyers' Plan (HBP) or Lifelong Learning Plan (LLP) is not taxable when withdrawn. Mandatory HBP/LLP repayment not satisfied is taxable.	**No.** Withdrawals are not taxable.	**Yes.** Educational Assistance Payments, consisting of income and grant, Withdrawals are taxable in the hands of the student, who presumably would be in the lowest tax bracket and thus not have to pay much.
You can "reimburse" your withdrawal in the account.	**Yes.** A withdrawal of contributions /income will increase contribution room for future years. The only condition being that you have to wait until the following	**No.** Repayment under the HBP or LLP will 'reimburse' the RRSP.	Not applicable	**No.**

	calendar year to replace it.			
Investments	Generally, the same investments are "eligible" for either a TFSA or RRSP - mutual funds, publicly-traded securities, government bonds, GICs, and segregated funds.		Not applicable	Not applicable