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tax & business Alert

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Tax Free Savings Account Revisited

The Tax-Free Savings Account (TFSA) program began in 2009. It is a way for individuals who are 18 and older and who have a valid social insurance number to set money aside tax-free throughout their lifetime.

Contributions to a TFSA are not deductible for income tax purposes. Any amount contributed as well as any income earned in the account (for example, investment income and capital gains) is generally tax-free, even when it is withdrawn.

Administrative or other fees in relation to TFSA and any interest or money borrowed to contribute to a TFSA are not deductible.

The account holder is the only person who can contribute to their TFSA. You can give your spouse or common-law partner money to contribute to their own TFSA without that amount, or any earnings on the amount being attributed back to you. The total of all contributions your spouse or common-law partner makes to their TFSA must not be more than their TFSA contribution room.

TFSA CONTRIBUTION ROOM

Your TFSA contribution room is the maximum amount that you can contribute to your TFSA.

Starting in 2009, TFSA contribution room accumulates every year, if at any time in the calendar year you are 18 years of age or older, have a valid Canadian social insurance number and are a resident of Canada.

You will accumulate TFSA contribution room for each year even if you do not file an income tax and benefit return or open a TFSA.

The annual TFSA dollar limit for the years 2009, 2010, 2011 and 2012 was \$5,000.

The annual TFSA dollar limit for the years 2013, 2014 and 2015 is \$5,500.

Under proposed legislation, the annual TFSA dollar limit for 2015 is increasing from \$5,500 to \$10,000.

The proposed measure increasing this limit is subject to parliamentary approval. Consistent with its standard practice, the CRA is administering this measure on the basis of the Budget announcement. Financial institutions may immediately allow existing and new account holders to contribute up to the proposed maximum.

TFSA \$\$\$
↑
\$10,000

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CONTRIBUTIONS, WITHDRAWALS AND TRANSFERS

Be aware of these rules and restrictions:

- You can contribute up to your TFSA contribution room. A tax applies to all contributions exceeding your TFSA contribution room.
- Withdrawals will be added to your TFSA contribution room at the beginning of the following year.
- You can replace the amount of the withdrawal in the same year only if you have available TFSA contribution room.
- Direct transfers must be completed by your financial institution.

At any time in the year, if you contribute more than your allowable TFSA contribution room, you will be considered to be over-contributing to your TFSA and you will be subject to a tax equal to 1% of the highest excess TFSA amount in the month, for each month you are in an excess contribution position.

OTHER REGISTERED PLANS

The TFSA complements existing registered savings plans like the Registered Retirement Savings Plans (RRSP) and the Registered Education Savings Plans (RESP). The annual contributions to these registered plans is not affected by your TFSA contribution nor is the TFSA limit affected.

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You can have more than one TFSA at any given time, but the total amount you contribute to all your TFSAs cannot be more than your available TFSA contribution room for that year. As the account holder, you are the only person who can contribute to your TFSA.

TYPES OF INVESTMENTS

Generally, the types of investments that will be permitted in a TFSA are the same as those permitted in a registered retirement savings plan (RRSP).

This would include:

- cash;
- mutual funds;
- securities listed on a designated stock exchange;
- guaranteed investment certificates (GICs);
- bonds; and
- certain shares of small business corporations.

US CITIZENS IN CANADA

Neither TFSAs nor RESPs are considered to be tax-deferred plans in the U.S. In the case of TFSAs, the Internal Revenue Service (IRS) has not provided any guidance on their tax treatment. It's generally believed that the U.S. will treat TFSAs in the same manner as RESPs: As a trust-type arrangement known as a "foreign grantor trust."

If you're a U.S. citizen and you contribute to a TFSA or RESP, then all interest, dividends and capital gains inside those plans must be reported annually on your U.S. tax return.

tax & business ALERT has been prepared by LEVI & LEVI, LLP for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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ABOUT LEVI & LEVI

LEVI & LEVI is a firm of chartered professional accountants that traces its origin in Montreal to 1970. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence. Our Chartered Professional Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

OUR SERVICES

LEVI & LEVI takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

TAXATION

LEVI & LEVI has a strong basis in federal and provincial tax issues. Our tax group is highly qualified and experienced. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal. Our specialties lie in tax reporting and representation, tax planning (business, personal, divorce and litigation), tax structuring of entities and transactions and tax research.

FINANCIAL

LEVI & LEVI can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

LEVI & LEVI's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Business valuation**
- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

CONTACT INFORMATION

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