Tax Free Savings Accounts... Caring For Your Future Part 1

Since it was introduced in 2008, the Tax Free Savings Account (TFSA) has been growing in use as a long term investment planning tool.

As of 2013, every Canadian over the age of 18 can invest in a TFSA up to a maximum of $25,500. With such sizeable allowances for contributions, the TFSA has become an integral part of a financial plan, being used for longer term investment planning and as an estate planning strategy.

Canadians are finding it beneficial to have an investment grow tax free and to not have to pay tax when withdrawing the funds. As a rsult, this tax free benefit has prompted the TFSA plan to become a longer term investment planning tool.

The TFSA account is not a bank account. Rather, it is an investment account which can be managed in conjunction with your Retirement Savings Plan (RRSP) and/or Retirement Income Fund (RIF), with the help of your financial advisor.

A common strategy is to use investments that trigger rgular dividends and interest, both of which attract annual taxation. However, within the TFSA, they ramain sheltered from this tax.

The TFSA can also be transferred tax free to your estate. When using your TFSA as an estate planning strategy to transfer investments tax free to your spouse, make sure your spouse is named as a successor beneficiary in order to facilitate the tax free transfer. A standard beneficiary applies to those other than a spouse, and will only receive portions of the TFSA tax free. Please ensure that you read the fine print, and make sure you have correctly assigned the beneficiary.

Next month we will explore another powerful and effective use of the TFSA.

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