

The announcement of the Tax Free Savings Account in the last federal budget was widely welcomed. Many commentators saw it as a useful complement to well-established tax-favoured savings vehicles such as the RRSP and RESP.

Reaction from employers has also been positive with many planning to introduce payroll deduction group TFSAs when the rules are formalized in the New Year.

But what do you tell your employees about the TFSA? How do you prevent the TFSA from becoming a source of confusion – just one more program they don't understand and resolutely ignore?

First, let's look at the ground rules for TFSAs. Beginning in 2009, Canadian residents aged 18 or older can contribute up to \$5,000 annually to a TFSA. Contributions are not tax-deductible, however, all capital gains, investment income, and capital withdrawals will be tax-free. Withdrawals can be made at any time and monies withdrawn will be added to the plan-holder's contribution room for the following year. Re-contributions can be made at any time and unused contributions can be carried forward indefinitely.

will find himself paying increasingly higher taxes in future years than he pays today. In his situation, maximizing RRSP contributions may not be his best strategy. A better alternative would be to save with a TFSA and, perhaps, generate a good portion of the down payment he will need for his home purchase in a few years. This strategy provides Karol with the opportunity to re-contribute the funds removed from the TFSA at a later date without affecting his other available contribution room.

RRSP Deduction

An alternative strategy would be for Karol to utilize the TFSA (which is more tax-efficient for employees with income below the YMPE) during the early years of his employment and then move the accumulated money into his RRSP later in his career when he is faced with higher tax brackets and the RRSP deduction is worth more to him.

Angie, 55, has 28 years of service and earns 10 per cent less than YMPE. She plans to retire in five to seven years. She anticipates she will be entitled to GIS supplements based on her projected retirement income. Angie has not made any RRSP contributions for several years because withdrawals from

What To Tell Your Employees About TFSAs

Individual Circumstances

The good news about the TFSA is the way it can work for so many individuals of different ages and at stages of life. It is very adaptable to the individual circumstances of all your staff and has the potential to be a highly appreciated component of your total benefits strategy. Do some of your people feel they pay too much tax? Do you have employees who are uncertain about the future and want to keep all of their financial options open? Have some of your highly paid workers maxed out on the traditional tax favoured plans? If yes, the TFSA might be what you need to attract their attention to the company benefits – and hold it there long enough for them to appreciate the helping hand you're offering them.

Of course, that appreciation is linked to understanding, so any employer wishing to sponsor a group TFSA needs to launch it with clarity and relevance. Here are some case studies to help you on your way. We'll look at real-life situations where the TFSA can be used constructively.

Karol, 26, is a new hire with no knowledge of money matters and little appreciation of the company's RPP (doesn't even know if it's Defined Benefit or Defined Contribution). His most important financial considerations are:

- ◆ what kind of car to purchase
- ◆ which vacation destination to take next
- ◆ what IT gadgets he wants to acquire
- ◆ perhaps getting on the real estate ladder within a few years

Karol has substantial upside salary potential and



Chart 1 Quantum Leap Your Returns With 'Double Duty Dollars'

Imagine combining your RRSP with the TFSA to accelerate your plans for an early retirement. **Case Profile** – Sam Giordano, age 40 currently earns \$97,300 which entitles him to an contribution of about \$17,500, but he can only manage about \$12,500 each year. Look how Sam turns \$12,500 capital into \$17,500.

DESCRIPTION	RRSP	TFSA
RRSP Contribution	\$12,500	Transfer the tax savings of \$5,000 into a TFSA
Less income tax rate @ 40%	-\$5,000	
After-tax cost of RRSP	\$7,500	
Capital Available for Investment	\$12,500	\$5,000
Assume 6% real rate of return for 20 years	\$527,498	\$210,999
If Sam retires at age 60 and he maintains the 6% real rate of return his income from these two resources will be	\$31,650 Taxable	\$12,660 Non-taxable



RETIREMENT PLANNING

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