

Financial planners gear up for launch of the new Tax Free Savings Accounts

Financial planners across Canada are eagerly awaiting the Jan. 1, 2009 launch of the new tax-free savings accounts (TFSA).

“We’re anticipating quite a rush, quite a demand to open in January,” says **Bev Moir**, a senior wealth advisor with **Scotia McLeod**. Ms. Moir has already made the necessary arrangements with a number of her clients so they can step into TFSAs come the first day of the New Year.

The positive interest Ms. Moir has received from clients about the new TFSAs is partly a result of her promotion of the new scheme. She wrote an article on the topic which she sent out to her clients and posted on her website. She has also been speaking exhaustively with her client base, explaining the opportunities available.

So far, Ms. Moir has found her clients are aware of the TFSAs but not yet fully up to speed on how it could be used for their benefit. But as January edges closer, awareness and understanding is growing, she says. “There is an education process, and I think it’s happening... People are getting things in the mail and seeing it in lots of different places, so the knowledge-base and interest is building.”

John DeGoey, a senior financial advisor with **Burgeonvest Securities Limited** and author of *The Professional Financial Advisor II*, is another financial planner excited about the new scheme. He too has been communicating extensively with his clients and has already received some positive interest. In one of his client communications, Mr. DeGoey wrote that the introduction of TFSAs will usher in a new era of investment planning in Canada. Come Jan. 1, Mr. DeGoey says he will be ready to meet his clients’ TSFA needs.

David Meagher, a senior financial advisor with **Altamira Investment Services** went as far as to say that TFSAs are arguably the most flexible savings account available to Canadians. He thinks it will change the landscape of

how Canadians save. And it’s not just the consumers who will benefit. With the unique features of TFSAs, Mr. Meagher expects, will come some confusion amongst investors as to which savings account is right for them. “This will create the need for investors to seek out the advice of professionals to help guide them to make smart financial decisions,” says Mr. Meagher.

For some, such as **Marla Gross**, director of investment products at **Copoloff Insurance Agencies**, it’s a matter of waiting for the new year before really embracing the product. Copoloff deals directly with financial advisors rather than end consumers, so Ms. Gross is in a good position to judge sentiment amongst advisors. “At this point there is some inquiry and interest from advisors but since the products are not available, there has not been a lot of hype yet,” she says. Ms. Gross does, however, see TFSAs as a great opportunity for advisors and clients.

Not all financial planners, however, are completely enthused about TFSAs. **Trevor Hughes**, the president of **Evangeline Securities Limited**, says that while he will be ready to begin offering TFSAs to his clients come January, he sees them as nothing more than a “glorified savings account.”

“I don’t see it as a particularly relevant financial planning tool for the client in the long run,” he says. One of the reasons for his lack of enthusiasm is the \$5,000 maximum yearly contribution restriction. “As an advisor I do not make much on that sort of purchase,” he says. As a result, Mr. Hughes does not plan to go out of his way to make specific recommendations to his clients about TFSAs. He will, however, use it as a speaking point with his clients and suspects that it will be something some of his clients will expect him to offer.

Ms. Moir is more optimistic



Bev Moir

about the \$5,000 cap and has gone to lengths to explain to her clients the potential it entails. “I’ve talked to clients who initially think that \$5,000 is not very much,” she says, “but then they start to think about it. That money grows every year and you can take it out plus its growth and put that money back in again, including the growth, as well as your annual contribution. I think people are realising that this can really become quite a sum of money that they can build in this type of structure.”

Who will benefit?

Both Ms. Moir and Mr. DeGoey see the scheme most benefiting those in either the upper or lower wealth categories.

For the high-end it allows for tax-deferred savings above and beyond Registered Retirement Savings Plans (RRSP) maximisation, says Mr. DeGoey. “People who are already contributing \$20,000 or more to their RRSPs annually, i.e. who have an annual earned income of about \$111,000 and no pension plan, will be able to use TFSAs to save more than the conventional 18% offered by RRSPs,” explained Mr. DeGoey.

As well as providing more scope for the high-end who have maxed out their RRSP contribution, Ms. Moir says that TFSAs

also give wealthy individuals an opportunity to split income with a spouse or adult child with no attribution rules.

Ms. Moir also says that for wealthy seniors the TFSAs provide a way of reducing their taxable income that may affect their access to government benefits.

For the low income earners, Mr. DeGoey says that it provides an alternative to RRSPs, where there is little tax deduction to begin with. For those people just starting out in their career, Ms. Moir says that contributing to a TSFA rather than a RRSP will allow them to accumulate RRSP contribution room which they can take advantage of at a later stage when they’re at a higher income level.

For those in the middle income bracket, TFSAs could be a good vehicle to put aside some emergency savings, says Ms. Moir. Mr. DeGoey agrees, saying that TSFA’s are a great way to have some liquid funds available for a rainy day or unforeseen circumstances and still be sheltered from tax.

Mad money strategy

As well as using the TSFA for the reasons discussed above, Mr. DeGoey says that he intends to be “creative” in his application. One idea he has is to use TFSAs for “home run money” or “mad money.” He says that if someone has a hot tip or a great idea for a risky investment, they could make the investment through the TSFA. If the tip pays off the \$5,000 could grow to \$50,000 which could then be withdrawn tax-free. Mr. DeGoey does warn, however, that if the investment doesn’t work out the investor won’t be able to claim capital loss.

It’s not long now until we will begin to see the effects of TFSAs on the Canadian financial planning landscape. If Mr. DeGoey is correct, those changes could be dramatic. As he wrote to his clients – “By all accounts, [TFSAs] promise to offer a sea-change in financial planning opportunities for Canadians.”

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