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# For a Better Savings Account, Look Up To Canada

[Matthew Amster-Burton](#) on 5/11/2010

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Let's say you've listened to your local personal finance reporter, and you've committed to saving more money.

Good for you!

Unfortunately, right now, Americans who want to save for the future get dunked in a big bowl of alphabet soup: 401(k)s, IRAs, 529s, HSAs. If you want to save that dollar in a tax-advantaged way, where to put it?

\* A 401(k), traditional IRA, or Roth IRA, for retirement savings? Many people are eligible for all three of these, and you can spend hours or days weighing your options.

\* A 529 plan, for college savings? It works like a Roth IRA (money is taxed before it goes in, taxed free when it comes out), but can only be used for qualified education expenses.

\* A health savings account (HSA) or flexible spending account (FSA), or both, for medical expenses?

Now, be careful. In most cases, you can't transfer money between these accounts, so you'd better know ahead of time how much you're going to spend on medical care, retirement, and college. You have a crystal ball, right?

What's that? You want to save for retirement, college, *and* medical expenses? And for a down payment on a new house or car? Where's the ibuprofen?

It would all be so much easier if you lived in Canada.

## Introducing the Tax-Free Savings Account

Since January 2009, Canadian residents have been eligible to open Tax-Free Savings Accounts (TFSA). They work almost exactly like Roth IRAs: you contribute after-tax dollars, and all withdrawals are tax-free. All Canadians 18 and older can contribute up to \$5,000 (Canadian) a year to a TFSA, and you can stuff it with a variety of investments: regular savings accounts, CDs (called GICs in Canada), and mutual funds.

Unlike Roth IRAs, however, you can use a TFSA to save for absolutely anything. You don't have to submit receipts. You can use the savings for college, medicine, retirement, or a pony. Furthermore, if you don't contribute your full \$5,000 this year, the leftover amount rolls over. I could, if I were Canadian, put \$5 in my TFSA this year and \$9,995 next year. (You can actually put in even more than this, in a way too complicated to explain but easy to do in practice.)

"They're astounding," said Chris Edwards of the Cato Institute, a libertarian think tank. "It's a profound reform. It essentially eliminates taxation on savings for the entire middle class."

Five grand a year is a significant amount of savings for most families—but not for the rich.

Edwards, who is originally from Canada, sounds a little homesick. As well he should. In 2002, he co-wrote [a paper](#) arguing that Roth IRAs should be converted into what he called Universal Savings Accounts (USAs, get it?). It describes a proposed reform nearly identical to the Canadian TFSA.

President George W. Bush's administration had a similar idea dubbed Lifetime Savings Accounts; it went into several budgets he submitted to Congress in the mid-2000s. Each time, Congress stripped it out.

I spoke to a source at the House Ways and Means Committee, which would have to sign off on tax-free savings accounts in the US. They said nothing of the kind is currently in discussion.

## I want my TFSA

Are Canadians actually using these new accounts? After all, they already had access to tax-advantaged retirement and education savings accounts, just like Americans.

Oh, TFSA's are a hit. According to Canada Revenue (the Canadian IRS), 4.6 million Canadians (about 15% of those eligible) have opened the accounts as of December 2009 and stashed \$17.9 billion (CAD) in them.

"A TFSA is completely flexible," said David Birkbeck, an executive at Royal Bank of Canada. "Those withdrawals can be used for anything. I'm sure it would take off in the US just as it has in Canada."

The most popular use for TFSA's in Canada is emergency savings, according to a survey taken by RBC. But RBC promotes them for any number of purposes, including supplemental retirement savings.

I don't want to leave you with the idea that the only people talking about TFSA's for America are on the political right. Elizabeth Warren, the Harvard law professor who advocates for (and might serve as chair of) a new

consumer financial protection agency, promotes the idea in her book *The Two-Income Trap*:

*[I]nstead of asking each family to carve its nest egg into separate little tax-advantaged slices, middle-class families could be rewarded for all savings. All savings—not just savings specifically designated for retirement or education—should be exempt from taxes.*

Cato's Edwards told me almost the same thing. "Any economist will tell you, all savings is good," he said. "Whether it's savings for 30 years until you retire or whether it's savings for three or four years before you buy a car or whatever, it's all good."

This is not a partisan issue. Regardless of whether you're a fan or foe of former President Bush, the Cato Institute, or Prof. Warren, tax-free savings account are a good idea. They appeal to conservatives because they promote individual choice about savings instead of a set of complicated, government-approved boxes, and because they

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provide tax relief to middle class families. They appeal to liberals because they would help ordinary Americans save more money, and because the effect on the federal government's tax revenue would be small. (Canada hasn't collapsed yet, after all.)

Unlike Edwards, I'm not persuaded that we should do away with the Roth IRA, but I think we should send a special team up north to appropriate Canadian tax-free savings accounts and bring them back to the US.

I'd open one today. Wouldn't you?

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*Ryan*

[1 day ago](#)

Yes, I would absolutely open one of these – for me, my kids, and my wife. This is just absolute lunacy that we can not have this sort of option in the U.S.

Crazy!

like

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*Matthew Amster-Burton*

[1 day ago](#)

Ryan, a link for you, if you're so moved:

<https://writerep.house.gov/writerep/welcome.shtml>

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*Geoff*[1 day ago](#)

The TFSA's certainly a great idea. But it would be even better if us Canadians had mint.com to help us track it and our other accounts...

10 likes

[Reply](#)*susan*[1 day ago](#)

It's disingenuous to portray Bush and the Cato institute (an organization with numerous "scholars" that want to eliminate social security and medicare among other things) as just wanting a small tax-free savings account for the middle class. they want ALL savings to be tax free, not just the first \$5000 – a massive giveaway to the wealthy, and the bills that were introduced were designed to open the door to that final plan, alongside a gutting of social security and a huge giveaway of middle class savings to wall street. The Canadian plan is fantastic, of course, but it is implemented within the context of a deeply socialist country that guards against that sort of slippery slope opportunism. When I lived in Canada for a year I noticed that the tax rates I paid there were quite favorable to lower income and middle income people compared to the US. But Canadians fight for their own interests and ensure that such tax breaks stay with the working and middle classes. Americans? We love to hand everything over to the rich because we all seem to believe that some day we'll win the lottery. And the wealthy sure do give a lot of money to the Cato institute.

1 like

[Reply](#)*Matthew Amster-Burton*[1 day ago](#)

Susan, I part ways with Chris Edwards (at least, with his Universal Savings Accounts paper) on a couple of points: I don't think the Roth IRA should be eliminated, and I don't think all savings should be tax-free. Like you, I think Canada got it right: \$5000 sounds great. I would even be fine with having it phase out at a certain income level. Are you arguing, however, that we shouldn't adopt the Canadian-style accounts here because that will inevitably lead to the dismantling of Social Security? That's an awfully long slope.

The Lifetime Savings Account pushed by the Bush administration is extremely similar to the Canadian version, right down to the \$5000 cap. Whether that was part of an evil plan to kill Social Security is irrelevant: it was a good idea; it's still a good idea; and Congress should pass it.

like

[Reply](#)*Jeff Walden*[1 day ago](#)

I'd open one in a heartbeat (well, maybe slightly longer, since I don't immediately have the money to invest that way, but as soon as I did have it — and I'd expedite saving to do so). I'd also note that if the idea appeals to you, adopting the flat tax[0] should appeal even more — once you pay taxes on your income, the money that's left over is yours to use in any way whatsoever without further taxation (at least, without federal taxation). Want to invest? Any profits from your investments are all tax-free (of course, on the other side of the coin, losses would not be deductible). Want to consume? Go ahead, you've already paid taxes on it.

The only issue I see with the Canada setup is the \$5000/year limitation. Once you've earned some money, it should be yours — so I'd remove the limitation and let you invest all your hard-earned (and already-taxed) dollars without being subjected to a second set of taxes.

I'm not surprised it's not in the cards in the current political climate (or, regrettably, in past ones). There's too much spending happening for the pols to be willing to give up the extra revenue, regardless that the incentive to investment make it easier to get capital to form businesses, increase existing ones, and so on to grow the economy. Better yet,

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they're talking about an entirely new tax in a VAT — not to replace the existing system (wholesale replacement with a VAT might well be an improvement), but to supplement it. "I'm the taxman, / And you're working for no one but me."

0. <http://www.hoover.org/publications/books/3602666.html>

like

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[Matthew Amster-Burton](#)

[1 day ago](#)

Susan and Jeff, I'm thrilled to have you both here, because you illustrate much better than I did that this is a reform with bipartisan appeal.

Jeff, for the record, the flat tax appeals to me less. 😊

like

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[Right Motion INC.](#)

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The introduce tax saving account, there is nothing call anything in Canada Tax free or tax saving where person dies and you still have to pay taxes, no mercy. However account such as these are for Government agents to watch you what you do and they will come after you in few years and hunt your all money. So better be careful with Canadian system.

like

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[Spencer](#)

[22 hours ago](#)

OK here's the deal, you open Mint.com to Canadians and we'll see what we can do about getting you TSFAs.

1 like

[Reply](#)



[Marc Pelletier](#)

[13 hours ago](#)

"You can actually put in even more than this, in a way too complicated to explain but easy to do in practice."

A bit of an explanation or a link to a more detailed explanation would be much appreciated.

Needless to say that I am a Canadian who opened such an account which, unfortunately, is already filled to the brim.

like

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[Matthew Amster-Burton](#)

[11 hours ago](#)

Hi, Marc, thanks for asking about that. Have you ever made a withdrawal from your TFSA? If so, that withdrawal is added to your future contribution room. If you haven't made a withdrawal, sorry, I can't help you. But if you take out \$1000 this year, that increases your contribution room to \$6000 next year, plus whatever unused room has rolled over in the past.

Sorry if I got your hopes up!

like

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[Allan Maguire](#)

[9 hours ago](#)

Because you can buy stocks, bonds, or whatever, all gains are tax free. So you should put all your dividend paying stocks in this type of account.

1 like

[Reply](#)



Eric M

[8 hours ago](#)

This is quite different from something like an HSA/FSA though. HSA/FSA are tax free on both ends – you put in pre-tax dollars and there is no tax when it is used. Yes, if you use after-tax dollar for medical, you can get a deduction, but only if you pass a certain % of your total income. Moving from a FSA to a savings plan like this would could my family at least a few hundred dollars a year.

like

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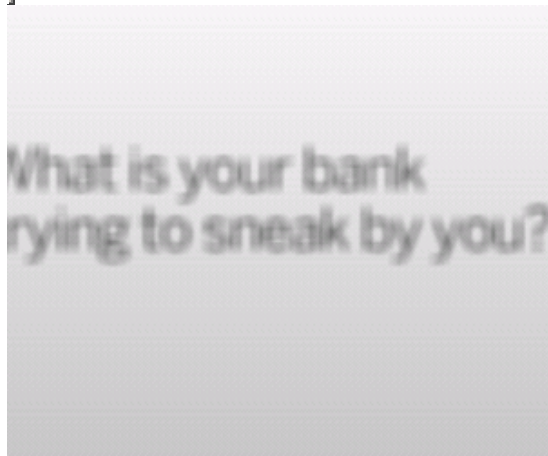
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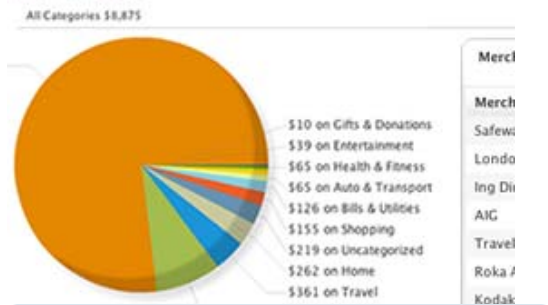


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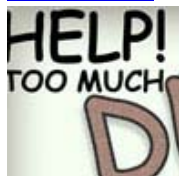
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