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SIGNPOST: WEALTH - TFSAs

Last week the federal budget included an increase in the contribution limit for Tax Free Savings Accounts (TFSAs) from $5,500 to $10,000, annually.

Since then, the Canada Revenue Agency (CRA) has confirmed that the new contribution amount is effective immediately so, where appropriate, we are now acting on this new allowance.

As you may have seen in the press, increasingly a TFSA will play an important and growing role in people's wealth plans. It is not only a valuable savings vehicle for Canadians, but the only one where neither its internal growth nor withdrawals will ever be taxable (because contributions are made with after-tax dollars).

A TFSA provides flexibility and a future tax-efficient stream of income. Since withdrawals are not considered "income" by the CRA, they do not result in any reduction of government benefits, such as OAS and GIS. Additionally, clients who are building estates may wish to consider providing funds for their children's TFSA contributions to minimize the overall impact of taxes on family wealth.

Here at Milestone, we believe TFSAs should be growth-oriented, albeit within the context of each client's overall investment plan. As the chart below illustrates, the power of compounding is significant. In this example, we assume $10,000 is being contributed to the plan annually, beginning today:

Age of Plan	Total Contributions	End of Year Value With 2% Growth	End of Year Value With 6% Growth
5 yrs (2019)	$ 50,000	$ 53,081	$ 59,753
10 yrs (2024)	$ 100,000	$ 111,687	$ 139,716
20 yrs (2034)	$ 200,000	$ 247,833	$ 389,927
30 yrs (2044)	$ 300,000	$ 413,794	$ 838,017
50 yrs (2054)	$ 500,000	$ 862,710	$ 3,077,561

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