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The Tax Free Savings Account

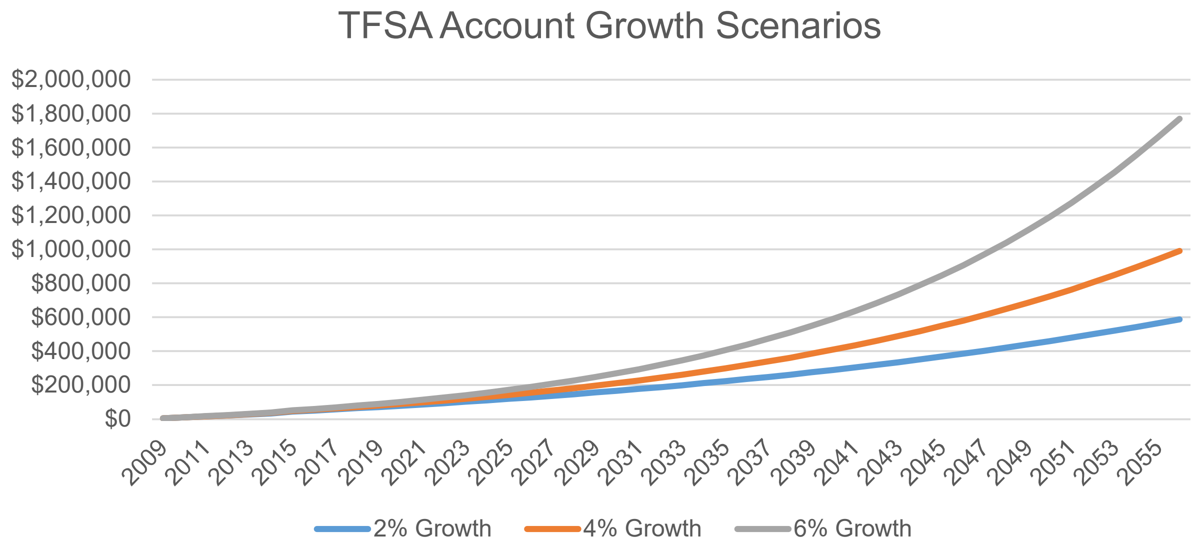
The Tax Free Savings Account (TFSA) was introduced in the 2008 federal budget by the Conservative government as an additional retirement savings method for Canadians to use alongside their RRSP. The program came into effect on January 1, 2009. Each year account holders, who must be Canadian residents age 18 or older, can contribute up to a maximum amount that is indexed for inflation. The table below summarizes the maximum contribution amounts for each year.

Years	Annual Limit	Cumulative
2009-2012	$5,000	$20,000
2013-2014	$5,500	$31,000
2015	$10,000	$41,000
2016-2018	$5,500	$57,500
2019-2022	$6,000	$81,500
2023	$6,500	$88,000

Investments in the TFSA are completely sheltered from tax, and assets can be withdrawn from the account at any time without penalty. Unused contribution room can be carried forward indefinitely.

How Impactful Can It Be?

In our view, the TFSA is one of the most efficient tools available for investors to enhance personal and generational wealth. The following chart helps to support this point.



This is a hypothetical example of an investor who turned 18 in 2009 and contributed the maximum amount (assuming annual inflation at 2%) each year to age 65. We've highlighted the account values at age 65 for 2%, 4%, and 6% annual growth. Note that total contributions over the life of the investor are **$372,304**.

Annual Growth	TFSA Value at Age 65	Absolute Growth
2%	$588,113	$215,809
4%	$991,574	$619,269
6%	$1,770,754	$1,398,449

The values in the Absolute Growth column indicate that not only are TFSAs an excellent mechanism for saving, they offer the potential for significant upside. The power of tax-free compounding is very evident, which warrants holding your portfolio's higher return, higher risk assets in your TFSA.

Planning Benefits

In addition to personal savings, TFSAs can also be used strategically for financial and estate planning. For instance:

- Withdrawals from the account can be used in situations where additional cash flow is needed, without impacting the marginal tax rate of the investor or any government subsidies, such as Old Age Security payments, that they may already be receiving.
- Contributions can be made from a higher earning to a lower earning spouse as a method of income splitting.
- Consider gifting money to adult children (or grandchildren) to start or enhance their own TFSAs as part of your intergenerational wealth transfer plan.
- Probate fees on TFSAs can be avoided by designating a beneficiary.

Other Points to Consider

- Eligible investments for the TFSA are the same as for the RRSP.
- If your cumulative TFSA contributions have reached the maximum level and you make a withdrawal, you cannot re-contribute the amount until the following calendar year.
- Over-contributions are subject to a 1% per month penalty.
- TFSA contributions are made with after-tax dollars, unlike RRSP contributions, which reduce your taxable income. However, TFSA withdrawals are not taxed, while RRSP withdrawals are subject to tax.
- If the TFSA contribution is an "in-kind" transfer of investments from a taxable account, a capital gain or loss may be realized. If applicable, capital gains are a taxable event, but capital losses may not be claimed.
- Unlike the RRSP, there is no creditor protection for assets held in a TFSA.

- The tax treaty between the U.S. and Canada on dividends in registered pension plans does not apply to the TFSA. This means that dividends on US stocks held in a TFSA, could be subject to U.S. withholding taxes of 15%.
- If you file a U.S. tax return, income resulting from TFSA investments may be taxable as the Internal Revenue Service (IRS) does not currently consider the TFSA to be a pension plan.