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Tax Free Savings Account

By Clinton Orr

Since 2009 Canadians have been able to accumulate money tax free inside a Tax Free Savings Account (TFSA). In my opinion the TFSA is an efficient and flexible tool. I encourage everyone to use it. In 2019 the contribution limit has increased. Now everyone over the age of 18 can add \$6,000 per year to their TFSA.

The yearly contribution limit has varied. In 2009 it started at \$5,000 per person, in 2013 it was increased to \$5,500. In 2015 the limit jumped to \$10,000 per person. However, that increase was short lived, in 2016 the limit was back to \$5,500. Now in 2019 it has increased to \$6,000 per person. The accumulated contribution room is now \$63,500 per person. If you have not maximized your contributions, the room is not lost, you can make a larger contribution and catch up.

The TFSA allows for significant tax savings. Any money contributed to the account can be invested and the growth on the investments is tax free. As well withdrawals from a TFSA can occur at any time and they are not taxed. An additional benefit is that any money withdrawn from the account can be put back into your TFSA the following calendar year.

If you contribute more than your available room, you will be penalized. The penalty is 1% per month and it is charged on the excess contribution amount. If you are not sure how much contribution room you have remaining, you can check. If you already have an account with CRA you can log in and check your TFSA room. As well you can phone and ask, 1-800-959-8281.

Using a TFSA is almost always beneficial. However, in my view, to get the most out of your TFSA I encourage you to use it as a long-term investment account. Often TFSAs are used as short time savings vehicles. I can understand why folks might treat their TFSA as a short-term savings account, they are called Tax Free Savings Accounts, it is in the name! In my opinion the account is misnamed.

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The TFSA is truly a flexible tool and a wide array of investments are permitted. It is really an investment account. I believe you have the potential to save the most tax and get the biggest benefit from your TFSA when it is used as a long-term investment account.

The Canadian tax payers do not get many tax free tools. I encourage folks to make the most of their TFSA.

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