Canaccord Genuity Wealth Management

Financial Focus

Becker Orr Wealth Management

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Make the Most of Your Tax Free Savings Account

By Clinton Orr

At the beginning of the year contributing to a Tax Free Savings Account is usually near the top of the financial to do list. For good reason, it is a phenomenal tax saving tool. However I believe there is still a little confusion surrounding TFSAs. There was a survey done in 2019 by RBC. The results showed that folks prefer the TFSA to the RRSP, when asked which account they would choose if they could only have one, 65% chose the TFSA. The results also showed that most people use the account for savings rather than investing. High interest savings or cash were the most common holdings. I agree that the TFSA is often the better choice over the RRSP, however I believe investing the money is a more efficient use of the account; a quick review could help explain why.

The Tax Free Savings Account was introduced in 2009. Anyone with a valid Social Insurance Number who is over the age of 18 can open a TFSA. In 2009 the contribution limit was capped at $5,000 a year. The contribution limit has fluctuated over the years, for 2020 the limit is $6,000. If you do not contribute the full amount to a TFSA in a given year, you do not lose the contribution room; it rolls to the next year. If you have never contributed to a TFSA, your total contribution room is $69,500. Once the money is in the account a wide array of investments are permitted. Stocks, bonds, GICs, mutual funds, alternative investments, there is a large selection of acceptable TFSA investments. I believe the name is misleading, it is called a Tax Free Savings Account, however there is such a large selection of permitted investments, it is not really a savings account it is more of an investment account.

You do not receive a tax deduction for your TFSA contribution, however once the money is in the account any growth on the investment is tax free. Whether your investment grows by 2% or 7%, all of the growth is tax free. As well you can withdraw the money at any time without tax consequence.

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Since you are limited to the amount of money you can contribute to your TFSA, it makes sense to invest that money and receive a higher tax free return. The interest earned on savings is pretty low. I believe most financial institutions pay between 2 and 3%. Savings are an important part of a financial plan, do not get rid of your cash cushion, simply use a different account for your savings and put your investments in your TFSA. Your investments usually grow at a faster rate than your savings; the additional tax free growth will compound and provide a boost to your overall financial plan. With limited contributing room, investing the money in your TFSA is often a good move. That way you will get more bang for your tax free buck.

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