

January 2022

Get the Most Bang for your Tax-Free Buck

By Clinton Orr

At the beginning of the year contributing to a Tax Free Savings Account (TFSA) is usually near the top of the financial to do list. For good reason, it is a phenomenal tax saving tool. According to recent data however, Canadians are not getting full value out of their TFSA. The Canadian Revenue Agency (CRA) released some TFSA stats in 2021. They collected the data in 2018 and found that 54% of tax filers for the year had a TFSA. TFSA adoption and usage are highest among older Canadians, but only 9.6% of TFSA holders have maximized their available contribution room. A separate survey by BMO, conducted in 2020, found that cash is the primary choice for most Canadians, meaning most Canadians are using the TFSA for savings rather than investing. I am glad so many Canadians are using TFSAs; 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 it started at \$5,000 per person, the contribution limit has fluctuated over the years, 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. In 2019 it increased to \$6,000 per person. For 2022 it remains at \$6,000 per person. 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 were 18 or older in 2009 and have never contributed to a TFSA, your total contribution room is \$81,500. 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.

Clinton Orr

**Senior Investment Advisor &
Portfolio Manager**

T: 204.259.2860

Beausejour: 204.205.0101

corr@cgf.com

Kevin Becker

**Investment Advisor &
Portfolio Manager**

T: 204.259.2863

TF: 1.877.259.2888

kbecker@cgf.com

Alicia Roache

Senior investment Associate

T: 204.259.2851

asroache@cgf.com

Maricar Irwin

**Senior Investment Advisor
Assistant**

T: 204.259.2861

mirwin@cgf.com

Adam Buss

Wealth & Estate Planning Specialist

T: 204.259.2865

abuss@cgf.com



**Canaccord Genuity
Wealth Management**

1010-201 Portage Avenue,
Winnipeg, MB R3B 3K6

BeckerOrr.com



cgf.com

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, 1-800-267-6999.

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.

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 1 and 2%. 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.

Clinton Orr B.Comm (hons.), CIM, CFP, DMS, FMA lives in Beausejour and is a senior investment advisor and portfolio manager with Canaccord Genuity Wealth Management.

The preceding information is intended to provide general guidance on matters of interest for the personal use of the reader who accepts full responsibility for its use. It is not to be considered a definitive analysis of the law and factual situation of any specific individual or entity. Consequently, it should not be used as a substitute for consultation with a professional accounting, tax, legal or other professional advisor. This commentary reflects my opinions alone and should not be considered as representative of Canaccord Genuity Corp's. beliefs, opinions or recommendations.