



Invest in your TFSA

The Tax-Free Savings Account (TFSA) has been in existence since 2009. In 2019, the total available contribution room is \$63,500 for those eligible Canadians who have not yet contributed. The annual TFSA dollar limit from 2009 to 2012 was \$5,000. In 2013 and 2014, the limit increased to \$5,500, the limit for 2015 increased to \$10,000 and from 2016-2018 \$5,500 and for 2019 \$6000.

One of the most compelling reasons for investing in a TFSA, is the opportunity for tax-free growth. The main difference between the TFSA and Registered Retirement Savings Plan (RRSP) is that TFSA contributions are funded with after-tax dollars, so any investment income or capital gains earned within the plan are not taxed upon withdrawal.

One of the downsides of the TFSA is that capital losses cannot be offset, like they can be in non-registered accounts. However, if a well-balanced portfolio is created for the long term, this should not be a concern.

WHICH INVESTMENTS ARE BEST HELD IN THE TFSA?

In order to take advantage of the TFSA's tax benefit, one of the objectives of many investors may be to maximize tax-free returns in a consistent and reliable way.

For investors who have a longer time horizon, investments with a higher yield potential, such as equities or mutual funds, may be ideal investments for a TFSA because the potential future gains will not be taxed. Even though the Canadian tax system offers a tax break on capital gains and Canadian dividends, the opportunity to earn these gains on a tax-free basis should not be overlooked.

Foreign shares are often better invested outside of the TFSA. Within RRSPs or Registered Retirement Income Funds (RRIFs), dividends on U.S. shares are exempt from withholding taxes, which isn't the case if the shares are held within a TFSA. Foreign shares from countries outside of the U.S. may also be better held outside of a TFSA because any foreign withholding tax (withheld at source) cannot be claimed as a foreign tax credit on a personal income tax return.

However, even more conservative investors can find suitable investments to hold within the TFSA depending on individual investment objectives.

SHORT TERM OR LONG TERM?

One beneficial feature of the TFSA is that withdrawals will be added back to the following year's contribution room, whereas RRSP withdrawals cannot be re-contributed.

Given this benefit, the TFSA may be an effective investment vehicle for both the short and long term. Some investors may choose to use the TFSA as an emergency fund and invest in more liquid assets like shorter-term fixed income investments. Others may wish to invest in longer-term income generating investments. The key is deciding how best to use the TFSA for your particular situation and choosing the appropriate investments accordingly.

THE BOTTOM LINE?

The opportunity to accumulate future wealth through the use of a TFSA can be significant. An investor who invested the full contribution amount annually since the TFSA's inception in 2009 of \$41,000 (including the 2015 contribution) and then stopped will have accumulated well over \$100,000 after 25 years, assuming a rate of return of 5 percent.

At the end of the day, taking advantage of the tax-free growth opportunity provided by the TFSA should be a priority. If you haven't already done so, be sure to participate!