Changes To Your TFSA

In 2015, Tax-Free Savings Accounts (TFSA) have a new annual contribution limit of $10,000 per year, as confirmed by the Canada Revenue Agency. Up from $5,500, it's now easier than ever to answer the question *When is the right time to contribute to a TFSA?* The answer is *today.*

When TFSAs launched in 2009, the benefits and flexibility made them an essential part of a comprehensive investing strategy. Now, with a lifetime maximum of $41,000 and rising by $10,000 every year, all Canadians aged 18 and over need to consider a TFSA as an essential part of their plan.

THE POWER OF TAX-FREE COMPOUNDING*

If you had contributed $0 before the recent increase, and then contributed $5,500 per year for the next 10 years (from 2015 through 2025), your investment would have grown to $74,708 by 2025. But you can now contribute $10,000 per year for the next 10 years. If you did that, your investment could grow to $135,834 by 2025. That amounts to 82% more growth because of the recent TFSA changes. Now that you can contribute $10,000 per year, your investment could grow to $135,834. That amounts to 82% more growth because of the recent TFSA changes.

On the other hand, let's say you've been making the maximum TFSA contributions every year since TFSAs started in 2009. As of the end of 2014, you'd have contributed $31,000 to your TFSA. If you continued to contribute $5,500 per year for the next 10 years, it would grow to $127,660 by 2025. Given the recent changes, you can now contribute $10,000 per year for the next 10 years, which means your TFSA could grow to $188,787 by 2025. That amounts to 48% more growth.

BIG AND GROWING FAST

Let's put things into perspective. In 2009, $5,000 didn't seem like a game-changing amount of money. Time told a different story, as the TFSA contribution limit was gradually increased – and it's going to tell a much bigger one in a decade. Today, the limit is $41,000. In 2025, it will be $141,000 if no further changes are announced.

Total TFSA contribution room

2009	2010	2011	2012	2013	2014	2015	2020^	2025^
$5,000	$10,000	$15,000	$20,000	$25,500	$31,000	$41,000	$91,000	$141,000

Since it's always TFSA season, don't forget to talk to us about increasing your pre-authorized contributions to ensure that you get the most out of your TFSA.

TOP FIVE REASONS TO USE A TFSA

The deeper you look into the benefits of TFSAs the better they appear. Here are five reasons you should consider opening a TFSA or begin maximizing your contributions today.

1. Reduce taxes on your investments

You can use your TFSA to shelter investments that would typically be taxed, because you don't pay tax on investment earnings within a TFSA. For example, if you've been eligible for a TFSA since they started in 2009, you will have total TFSA contribution room of $141,000** by 2025. That's $282,000 per couple in just 10 years from now. And all of the earnings will be tax free!

2. Flexible savings strategy

If you withdraw money from your TFSA, you can invest the money again in a subsequent year. Better still, if you don't have the money one year, you can carry forward any unused room. For example, if you invest $7,500 in 2015, you can invest $12,500 in 2016 or carry forward the $2,500 to any future year.

3. No "clawback"

TFSA earnings do not affect your eligibility for federal income-tested benefits and credits. No Old Age Security (OAS) clawback will be triggered by income or withdrawals. This is a big advantage for higher-income seniors.

4. Strategic withdrawals

A TFSA withdrawal may be more beneficial during a year when you have a higher marginal tax rate. Here's an example. If you decide to go on an expensive vacation during one of your peak earnings years, you can use money from your TFSA to fund the trip. That way, you're using money that was taxed at a lower rate, and you won't make an impact on the current year's Registered Retirement Savings Plan (RRSP) contribution.

5. If your RRSP is maxed out

If your RRSP is full and you can't contribute to it this year, a TFSA is a more tax-efficient option than a traditional "open" or "cash" account. In an open account, your earnings will be taxed each year. And if it's interest income, it will be taxed at your highest marginal rate. Not in a TFSA. No matter what kind of earnings you make in your TFSA, when you withdraw your money you do not pay taxes.

*These scenarios assume a 5.5% annual return.

^Assuming there are no legislative changes.

Please speak to us for more information about how you can benefit from TFSAs.
Go further, get there faster with a well-invested TFSA.

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**Source: http://www.macleans.ca/economy/economicanalysis/stop-pretending-the-tfsa-expansion-wont-be-felt-until-2080