TFSAs: A Less Taxing Way to Invest

Rewind to 2009 when Canadians were introduced to a new savings vehicle that would become one of the most powerful tools for building tax-free wealth: the Tax-Free Savings Account (TFSA).

In the early years, investors were keen to see how much interest they could earn in this new "savings" account. We quickly realized perhaps a better name would have been a **Tax-Free Investment Account**, as investors are not limited to cash savings and can hold many different investment options similar to Registered Retirement Savings Plans (RRSPs).

How They Work

A Canadian resident can open a TFSA at the age of majority, which is 19 years old in BC. Available contribution room begins accumulating at age 18 and, similar to an RRSP, unused contribution room carries forward indefinitely.

The 2026 annual TFSA contribution limit is **$7,000**. An individual who was at least 18 years old in 2009 and has never contributed to a TFSA could have accumulated contribution room of up to **$109,000 in 2026.**

Money inside a TFSA can be withdrawn at any time and any gains, whether from interest, dividends, or capital appreciation, are completely tax-free. Investors can also re-contribute amounts withdrawn beginning the following calendar year without impacting their regular contribution room.

You can check your available TFSA contribution room through your CRA My Account portal or with assistance from your tax professional. We generally recommend keeping TFSA accounts organized and carefully tracking contributions and withdrawals. The penalties for overcontributing remain significant and are currently 1% per month on excess amounts.

Pro Tip #1: If your TFSA is maxed out, you can provide funds to your spouse to contribute to their TFSA without triggering attribution rules, allowing you to utilize their available contribution room.

For estate planning purposes, TFSAs allow you to name a beneficiary, helping assets transfer efficiently to loved ones tax free and outside of probate.

Pro Tip #2: If naming your spouse as beneficiary, consider designating them as a successor holder rather than a beneficiary. This allows the TFSA to be added to the surviving spouse's TFSA without affecting their own TFSA contribution room.

The Power of Tax-Free Investing

Example 1

Bob contributes **$7,000 at the beginning of each year** to his TFSA and earns an average annual return of 5%. After 10 years, his TFSA could grow to approximately **$92,000**. After 20 years, it could exceed **$243,000,** all completely tax-free.

Example 2

Sara receives an inheritance and contributes **$109,000**, utilizing all her available TFSA room. If she earns an average return of 5% annually and never contributes another dollar, her TFSA could grow to approximately **$178,000** after 10 years and nearly **$290,000** after 20 years, all without paying tax on the growth.

Pro Tip #3: TFSA withdrawals do not affect income-tested government benefits such as Old Age Security (OAS), making TFSAs an attractive savings vehicle for retirees.

TFSA or RRSP?

A common question we are asked is: "Is it better to save in an RRSP or TFSA?"

The answer depends on your current income, expected retirement income, and overall financial goals.

An RRSP contribution generates a tax deduction, investments grow tax-deferred, and withdrawals are taxed when funds are eventually taken out. This often occurs during retirement, when individuals may be in a lower tax bracket than during their working years.

A TFSA is funded with after-tax dollars and receives no tax deduction; however, all future growth is tax-free and withdrawals are never taxed.

If you are currently in a lower tax bracket and expect to remain in a relatively low tax bracket throughout retirement, contributing to a TFSA rather than an RRSP may make more sense.

Conversely, if you are currently in a higher tax bracket and anticipate being in a lower tax bracket in retirement, an RRSP contribution may provide greater benefits.

Another situation where a TFSA can be especially valuable is following a financial windfall, such as an inheritance, the sale of a property, or a gift. By investing through a TFSA, all future growth can remain tax-free.

As always, we encourage working with a financial professional to determine the approach that best suits your personal circumstances.

Until next time...**Invest Well, Live Well.**

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