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7 TFSA Tips:

Quarterly Commentary

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More than 40% of Canadian families now have a TFSA, according Statistics Canada. Still, many Canadians may not know about some important details. In this month's commentary, I wanted to review some of the common and uncommon details I tell my client's about their TFSA.

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1. You can re-contribute if you withdraw.

Be aware that when you withdraw money from your TFSA, you can't put it back until the following calendar year. If you replace it before the end of the same calendar year, that causes your total contributions for that year to exceed your contribution room limit. The penalty for over contributing is 1% per month on the excess contribution amount.

You can withdraw any amount from your TFSA at any time without paying tax on the principal or any accumulated investment gains. It's your responsibility to track your contribution room limits, although the CRA does mention your limit on your Notice of Assessment.

2. You don't lose out on government benefits or credits.

Having a TFSA will not impact any government benefits or credits you receive, such as Old Age Security (OAS), the Guaranteed Income Supplement (GIS), Employment Insurance (EI) or the Goods and Services Tax/Harmonized Sales Tax Credit (GST/HST), just to name a few of the most common ones. None of these will be reduced or clawed back.

3. You can pass on your TFSA tax-free upon death.

TFSA legislation allows you to name a "successor holder" who would inherit your TFSA at the time of your death. Your successor holder must be a spouse or commonlaw partner (CLP). If someone other than a spouse or CLP is to inherit your TFSA, that person would typically be referred to as “beneficiary.” Where a successor holder is designated, your successor holder acquires all rights related to your TFSA at the time of your death. Similar to the “successor annuitant” designation on a Registered Retirement Income Fund (RRIF), your successor holder simply replaces you as holder of your TFSA, and the plan continues with all rights passing to your successor. Most importantly, successor holders do not require TFSA contribution room to receive this benefit. Your TFSA would transfer right into theirs.

4. You can’t lose your contribution room.

If you’ve never opened a TFSA, you can contribute up to $63,500 today: $5,000 for each year from 2009 to 2012; $5,500 for each of 2013 and 2014; $10,000 for 2015; $5,500 for each of 2016, 2017 and 2018; and $6,000 for 2019. Plus, you never lose contribution room, regardless of your age (unless you are a non-resident of Canada for an entire year, during which time you will not accumulate contribution room). Speaking of age, you must be at least 18 years old and have a valid social insurance number to open a TFSA.

5. You probably don’t want a TFSA if you’re not living in Canada.

You have to be a resident of Canada to open a TFSA, but you’re more than welcome to keep it if you move away. However, any contributions you make while being a non-resident will be subject to a monthly 1% tax. So if you’re not living in the country for a period of time, it’s a good idea to leave your TFSA alone. Adding to it might do you more harm than good.

6. You can hold various types of investments.

I can't count how many times I've heard clients say "a Tax Free Savings Account is only paying 2%". Often new clients who have come from large financial institutions or credit unions say this because they aren't being told it is mostly likely a GIC being bought WITHIN their TFSA. To review, a TFSA is a type of account that you can put various investments into.

Some type of investments that can go within your TFSA are:

- GIC's
- Mutual Funds
- Exchange Traded Funds
- Stocks
- Bonds (corporate, federal, provincial etc.)
- Options - (Only certain strategies: Buying Calls, Buying Puts, Covered Calls, Protective Puts, Collars.

7. You can use the assets in your TFSA as collateral for a loan.

If your TFSA is invested in cash, the bank would probably suggest you withdraw the cash and use it instead of getting a loan. In most cases, that would be the sensible solution.

If your TFSA is invested in bonds or GICs, the bank would probably allow you to pledge part of the value of those assets as collateral against a loan. They would likely need proof of the terms, principal and interest rates for the assets. You are most likely to get a loan from the same financial institution that holds your TFSA as it would be easiest for them to keep an eye on their collateral and access it if you don’t repay your loan.

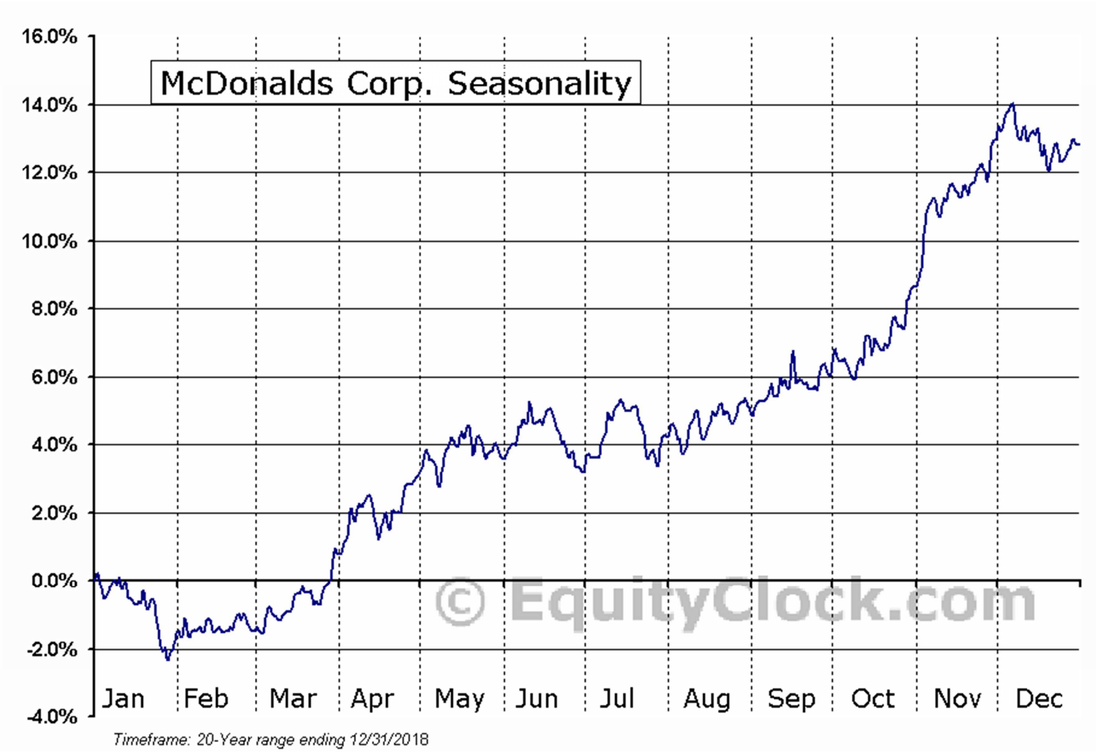
If your TFSA is invested in individual stocks, mutual funds or ETFs, it gets trickier. The bank would have to decide how risky it thinks those investments are. For example, in mid-November 2008 TD bank shares were worth approximately $48 each. By mid-December they were down to approximately $34 each. The institution making the loan knows these types of market drops can occur anytime without warning. Depending on how risky they rate your investments they may or may not accept them as collateral and are very unlikely to loan you even 90% of the current value of them.

Seasonal Investment Opportunity

Seasonal investing refers to particular time frames when stocks/sectors/indices are subjected to and influenced by recurring tendencies that produce patterns. Tendencies can range from weather events (temperature in winter vs. summer, probability of inclement conditions, etc.) to calendar events (quarterly reporting expectations, announcements, etc.). The key is that the tendency is recurring and provides a sustainable probability of performing in a manner consistent to previous results.

McDonald's

From 1989 to 2018, in the period from October 28th to November 24th, McDonald's has produced an average gain of 4.9% and has been positive 85% of the time. McDonald's has had two periods of seasonal strength, one in the spring and one in autumn. It trends towards weaker performance around year-end and in the summer months. Consumer discretionary companies (McDonald's is included as one) typically have seasonal strength from October to April. Meaning, McDonald's doesn't usually follow its peers.



Asset Allocation

This is just a fancy phrase for your 'investment strategy'.
There are three general categories for your investments:

1. Cash and cash equivalents
2. Fixed Income (bonds)
3. Equities (stocks, preferred shares, certain Exchange Traded Funds & Mutual Funds)