




□ Magenta®

TFSA's

Springing Your Savings
Into Action



Since I left for university, my parents have lived in the country, surrounded by a mix of old-growth forest and abandoned orchards. And from as soon as the snow is gone until the Ghost of Christmas Future looms over us once again, my father's favourite form of recreation is 'keeping his forest tidy'. There is no dead and diseased branch he will suffer to leave on an otherwise healthy tree, no invasive grapevine grown wild and woody he will allow to strangle the noble citizens of his domain. Many a spring I've accompanied him on his arboreal endeavours, clearing the trails of branches or whole trees that crumpled under the weight of winter, making room for sunlight to hit the forest floor and inspire new saplings to strive for warmth and sustenance in their place.

It was the second semester of my first year of university, the land still new to both of us, when I helped steady a ladder as he trimmed an especially venerable vine from where it choked a maple, when suddenly he cried out, "HEATHER!"

"Dad! Are you ok?"

"You've been 18 for five months!"

"Yes...?"

"And you still haven't opened your TFSA!" He dismounted the ladder, tossing the vines aside. "That's free money you're leaving on the table. Well, as close to it as you can get, anyway."

TFSA? The acronym sounded familiar from working part-time at Magenta during high school, but the exact words eluded me. "Something something savings... account, right?"

"Not just something. Tax-free. A TFSA is a Tax-Free Savings Account that any Canadian citizen 18 or older can benefit from. It's a place to hold your cash savings and investments where any income they generate through interest, dividends, or capital gains will be tax-free. And unlike with RRSPs, your withdrawals won't be taxed."

"Wow! Who needs any other kind of account, then?"

He laughed, folding up the ladder as we moved on to the next stand of trees.

"Young lady, you should be a little more civic-minded. You might hear me grumble about them, but I'll admit taxes go towards some useful things. Paying the people who got the powerlines back up after last month's storm left dead wood like this lying on the cables, for starters."

He was raring to go out himself and use his new pole saw to solve our local offenders until my mother gently reminded him of the nature of electricity, so indeed, I was grateful.

“That’s why there’s a strict annual contribution limit on your TFSA—set by the Government of Canada each year. The limit resets every year on January 1st, and you can carry over any unused room from the previous year. That’s why your dad’s not having a heart attack right now. You missed out on a few months of interest, but there’s still time to make the most of your contribution limits.”

“You keep saying interest and dividends. So it’s not just for savings, it’s for investments too, right?”

“It depends. Your older siblings and I each have what’s called a self-directed TFSA. The money we save in our TFSA, along with the income we earn on it, can be used to buy and sell qualified investments such as stocks, bonds, mutual funds, and exchange-traded funds (ETFs).

A self-directed TFSA gives you the greatest potential to maximize your income, because you have complete control over how you invest, and who knows or cares more about your finances than you? But that also means it comes with the responsibility to do your research and prepare for the risk that the market might not always act the way you think it will.

That’s why some people prefer to designate their TFSA account as a deposit account, which is more like a regular savings account, or designate it as an annuity contract or arrangement in trust, where you’re trusting an insurance company or your financial institution to make safe bets with your savings. Whichever you end up choosing, contribute early and often, up to the limit. No matter what road you’re taking with your TFSA, time is quite literally money.”

I tossed the choicest branches I’d collected into the pile by the wood chipper, ready to become mulch for this year’s perennials. “Wow. If time is money and you’ve been following your advice since you were 18, your TFSA must be amazing by now.”

“Not exactly. They’ve only been around since 2009, and **the limit on how much you can contribute** goes up by \$500 every year or two. I don’t have that much of a head start.” He grabbed his safety goggles and headphones as the chipper rumbled awake, only a little grumpy from a long sleep in the shed. “Wait a minute, was that a crack about my age?”

I shook my head, chuckling an apology, but it was lost to the din of the machine. I left him to finish tidying up his forest while I helped Mom set the table for dinner. We only had the one set of ear protectors, after all, and my hearing, like my money, needed to be saved.

Disclaimer

The opinions and viewpoints presented in this document are exclusively those of the several writers and do not represent the perspectives of any associated individuals or organizations, including but not limited to the writers' current or former employers. This article serves purely informational purposes, and the writers have made efforts to verify the accuracy of the information and analysis. The writers take full responsibility for any opinions, forecasts, or predictions made. They do not guarantee the precision or completeness of the document's contents. This document does not offer professional or investment advice. The writers will not be liable for any consequences resulting from reliance on this piece. Readers should consult with a certified expert before making any financial decisions.

Contact Us

 shareholders@magentacapital.ca

 magentacapital.ca