

News

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Are you making these TFSA mistakes?

There are few free rides in personal finance, but Canada's Tax-Free Savings Account (TFSA) program is one of the most generous to investors. Your interest, dividends, and capital gains can grow tax-exempt, and there's no tax on withdrawals.

Anyone who is 18 or older and has a valid social insurance number can open a TFSA. Since 2009, your personal contribution has been accumulating for every year that you were eligible. That means if you've never contributed to a TFSA, you may be able to put in up to \$81 500 in 2022. The annual TFSA limit is \$6000 in 2022.

Beware, though: there are some TFSA blunders that will trigger harsh penalties from the Canada Revenue Agency (CRA), or at least unravel the benefits of tax-free investing. See if you're making any of these TFSA mistakes.

Have you claimed your BC CPRSP benefits?

Each year, eligible doctors in British Columbia receive a unique benefit entitlement to help fund their retirement savings through the BC Contributory Professional Retirement Savings Plan (CPRSP). Doctors of BC will notify you of the amount you can claim each fall, but you'll need to apply online for the CPRSP. If you don't apply for the CPRSP, your basic benefit will expire in 3 years. For example, the CPRSP benefit for 2021 expires on 31 March 2024. You can invest the money in an RRSP, a spousal RRSP, a TFSA, an individual pension plan, or a combination. Contact Doctors of BC if you have any questions about your benefit.

Have you contributed too much to your TFSA?

The CRA keeps close tabs on every penny moving in and out of your TFSA. If you

inadvertently contribute more than your allowable limit, expect what's known as an "excess amount letter." This provides information about TFSA rules and what you need to do to resolve the issue. You could be penalized with a tax of 1% per month on the excess amount until it is withdrawn.

Did you move any TFSA money from one financial institution to another?

You may have any number of TFSA accounts across multiple institutions. But if you withdraw money from one to put into another, be aware that this counts as a TFSA contribution. Yes, the withdrawal increases your TFSA room—but not until the following year, so you could be over-contributing. If you need to move money between financial institutions, ask for a direct transfer—it won't count as a TFSA withdrawal or impact your contribution room. To manage your TFSA account more easily, consider keeping your TFSA money at one financial institution.

Have you bought investments that aren't allowed in a TFSA?

TFSA's allow a wide range of qualified investments, but there are some general restrictions. For instance, prohibited investments include any property that you're closely connected to—say, shares of a company or a partnership in which you have a significant interest (10% or more). This can trigger two special taxes: 50% on the value of the investment, and 100% on any income or capital gains derived from the investment. The issuer of your TFSA must take reasonable care to ensure that the account does not hold nonqualified investments, but you should still exercise caution and monitor your TFSA.

Have you invested in too much fixed income?

Despite the name, it's better not to think of the TFSA as a savings account. To enjoy the tax savings of a TFSA, your investments need to have meaningful growth. If your TFSA holds mostly cash and other low-interest-bearing investments, you erode the main benefit of investing in a TFSA.

Are you using your TFSA for day trading?

It is perfectly okay to build and manage your own investment portfolio in a self-directed TFSA account if you prefer to, but be aware that high-frequency or aggressive day trading may draw the attention of CRA auditors. If a TFSA account is determined to be used for "carrying on a business," all gains could end up being taxed as business income. So, if you dream of hanging up your scrubs to trade full-time, chat with a tax professional first.

—Andrea Cross, CFP

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