The TFSA: Here’s why you should contribute every penny of your limit

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The TFSA dollar limit has increased to $6,500 for 2023. Since their introduction in 2009, TFSAs have been extremely popular among millions of Canadians, many of whom continue to put away extra funds.

Under the tax rules, starting in 2009 and for each subsequent year, the annual TFSA dollar limit was fixed at $5,000, indexed to inflation for each year after 2009, and rounded to the nearest $500 to make the annual limits easy to remember. Contrast this with the maximum registered retirement savings plan (RRSP) limit, which is fully indexed to inflation, with no rounding, making the 2023 limit of $30,780, a bit harder to recall.

Each fall, the Canada Revenue Agency (CRA) announces the indexation increase for the following calendar year. The “indexation factor” for 2023 was calculated by taking the percentage change in the average monthly Consumer Price Index (CPI) data as reported by Statistics Canada for the 12-month period that ended on September 30, 2022 relative to the average CPI for the 12-month period that ended on September 30, 2021.

The TFSA dollar limit for previous years was:

- For 2009 to 2012 — $5,000
- For 2013 and 2014 — $5,500
- For 2015 — $10,000
- For 2016 through 2018 — it dropped down to $5,500
- For 2019 through 2022 — it was increased to $6,000

The CRA announced the 2023 inflation factor to be 6.3%, which is the rate used to increase the federal tax brackets from 2022 to 2023 and most federal credits. Combined with prior years’ inflation, it was enough to push the TFSA dollar limit for 2023 to the next $500, which is why it is now at $6,500 for 2023.

Unused contribution room can be carried forward to future years, such that the cumulative limit for someone who has never contributed is $88,000 in 2023. In other words, if you were at least 18 years of age in 2009 and have been a resident of Canada since then but have never had a TFSA before, you could contribute the entire $88,000 to your TFSA today.

Let me share with you 3 reasons why Canadians have embraced their TFSAs.

It’s really, truly tax-free

While you contribute to a TFSA with after-tax dollars, once the funds have been contributed, they grow tax free, for life. So, as long as you follow the rules, all income and gains, whether realized or unrealized, will never be taxed while in the plan and the TFSA funds may be withdrawn tax free, at any time, for any reason.

Because TFSA withdrawals aren't considered to be income, they don't negatively affect federal income-tested benefits and credits, such as the Guaranteed Income Supplement, Old Age Security payments or the age credit.

Even upon death, the entire fair market value of your TFSA can be received by your estate tax-free. And if you name a successor holder or beneficiary on your TFSA, where permitted, the assets can flow directly to the named successor holder or beneficiary without going through the estate, which could mean potential savings on provincial probate fees or estate administration taxes.

If you name a successor holder, who can only be your spouse or partner[1], the TFSA will continue to grow tax-free and your surviving spouse or partner steps into your shoes and becomes the new TFSA holder. Alternatively, if your spouse or partner is the beneficiary of your TFSA, they can transfer the entire fair market value of the TFSA upon your death to their own TFSA without using any of their own TFSA contribution room.[2] This may prolong the tax-free income and growth in the plan.

You can contribute at any age

You may only contribute to an RRSP until the end of the year in which you turn 71 years of age[3] and you must have "earned income," which is typically (self-)employment income or rental income. Contrast that with the TFSA for which there is no age limit and no earned income requirement.

One popular strategy that has emerged for seniors, who are required to withdraw a prescribed minimum amount annually from their RRIF at age 72, is to recontribute any after-tax withdrawals not needed to fund living expenses back into a TFSA for tax-free retirement accumulation.

You can recontribute your withdrawals

Finally, keep in mind that any amounts withdrawn from your TFSA can be recontributed,[4] beginning the following calendar year, without using up TFSA room.[5] This is something you can't generally do with an RRSP as you have to have available contribution room, based on earned income. However, there are exceptions for amounts withdrawn from an RRSP under the Home Buyers' Plan to buy a first home or the Lifelong Learning Plan to fund post-secondary education.

For example, let's say Debbie had contributed the maximum allowable $81,500 to her TFSA over the years from 2009 through 2022. The fair market value of her TFSA at the end of 2022 had grown to $100,000 when she decided to take the money out for a down payment on her condo. In 2023, Debbie could contribute $106,500 to her TFSA, consisting of the full $100,000 she withdrew in 2022 from her TFSA and the 2023 additional $6,500.

Make the most of your TFSA

Figure 1 (on the next page) can help you to calculate your TFSA contribution room if you have not yet contributed to a TFSA and have resided in Canada since age 18.

You should contact the CRA through the Individual tax enquiries line or use the CRA's My Account for Individuals service to confirm your TFSA contribution room. Then make the most of your TFSA by contributing every penny that you can!

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1 In this article, "spouse" refers to someone to whom you are legally married. Partner refers to a common-law partner under the Income Tax Act, which means someone who cohabits with you in a conjugal relationship, provided the two of you have cohabited for the past 12 months or are jointly parents of a child.

2 This also applies of your spouse or partner otherwise receives the proceeds of your TFSA directly or indirectly as a consequence of your death. In all cases, the TFSA rules must be followed,

3 After the year in which you turn 71 years of age, you may still contribute to a spousal or common-law partner RRSP until the end of the year in which your spouse or common-law partner reaches 71 years of age.

4 Other than amounts withdrawn to correct an over-contribution.

5 Contributions are subject to the residency requirement.

Figure 1: TFSA contribution room for individuals who have not yet contributed to a TFSA and have resided in Canada since age 18

Your age in 2023	Your birth year	Year you reached age 18	Dollar limit in year you reached age 18	Your cumulative dollar limit in 2023*
18	2005	2023	$6,500	$6,500
19	2004	2022	6,000	12,500
20	2003	2021	6,000	18,500
21	2002	2020	6,000	24,500
22	2001	2019	6,000	30,500
23	2000	2018	5,500	36,000
24	1999	2017	5,500	41,500
25	1998	2016	5,500	47,000
26	1997	2015	10,000	57,000
27	1996	2014	5,500	62,500
28	1995	2013	5,500	68,000
29	1994	2012	5,000	73,000
30	1993	2011	5,000	78,000
31	1992	2010	5,000	83,000
32	1991	2009	5,000	88,000
33+	Before 1991	Before 2009	0	88,000

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