# How to Make an Extra TFSA Contribution if You Don't Have $4,500 Lying Around

## Description

For investors in Canadian stocks, the best news in the recent federal budget had to be the immediate bump of the annual TFSA contribution limit from $5,500 to $10,000.



As I write, at least three Canadian banks (**Bank of Montreal**, **CIBC**, and **Toronto-Dominion Bank**) have confirmed with the Canada Revenue Agency (CRA) that even though the increase in the TFSA limit isn't yet formally enshrined in legislation, it's OK for clients to contribute an additional $4,500 to their tax-free savings accounts right now.

In other words, if you contributed $5,500 early in January, you can now put in an additional $4,500 without fear of reprisals from the CRA.

**In fact, there may even be safety in numbers**

Almost 11 million Canadians now have TFSAs. Now, it's true that a federal election is scheduled in the fall and both the Liberal Opposition and the NDP would reverse the TFSA expansion if they were to win power. Liberal leader Justin Trudeau has already declared that he'd trim it back to $5,500, on the basis that very few Canadians have an extra $10,000 lying around to put into TFSAs.

In that statement, Trudeau betrays his relative youth. He's clearly not thinking of probably hundreds of thousands of near-retirees and seniors who have significant wealth in non-registered investment accounts and who would love to be in a position to report a bit less T-3 and T-5 investment income a year from now when it's time to file their taxes again.

The important thing is that anyone in that position doesn't need to make the extra $4,500 TFSA contribution with newly earned cash. The important concept is that of "transferring securities in kind."

That means you contact your local financial institution and tell them you want to transfer $4,500 worth of non-registered securities into your TFSA.

**Here's an example**

I received a windfall of sorts back in January and after maxing out my TFSA and that of my wife, parked the rest in a particular exchange-traded fund (ETF) in our taxable investment account. (For the curious, it was the **BMO Equal Weight Utilities ETF**.)

As we had more than $10,000 invested in this fund and it was trading only slightly above the price it was when I purchased it in January, I decided this would be the security I wanted to "transfer in kind."

This is best done on the phone with a representative from your bank or discount brokerage, rather than by yourself online. We transferred 277 shares at a price of $16.17, or slightly less than $4,500, into my TFSA and later did the same thing into my wife's TFSA. By the way, I feel U.S. dividend-paying stocks are better held in an RRSP. High-yielding conservative Canadian stocks are a good candidate for TFSAs and an equal-weighted approach is also a plus for risk management purposes.

But you could just as easily transfer-in-kind individual Canadian stocks, whether **BCE**, a major oil company, or any of the big banks. I mention oil stocks because odds are the capital gains tax liability may be less because of the depressed price of oil (which has started to rebound).

**A key consideration**



A key consideration when executing a transfer-in-kind is capital gains tax. Sadly, the CRA will consider it a "deemed disposition" when you transfer any security that has appreciated in price from a taxable account into a TFSA. So, as you scan a list of possible candidates, you want to avoid triggering capital gains on any big winners purchased long ago. Look for more recent purchases or longer-held positions that have barely budged from their initial purchase price.

Alternatively, look for pairs of securities where gains in one may offset the other. Unlike gains, the CRA will deny a loss for a security transferred-in-kind so you'll have to sell it while it's in the taxable plan to capture the loss for tax purposes. Then you can transfer the cash, and either repurchase the security in the TFSA or buy something else.

If you do decide to repurchase the identical security you just sold in your taxable account, you'll have to wait 30 days in order to avoid the CRA's superficial loss rules. In the case of ETFs, you may be able to find an almost identical fund trading under a different ticker.

If you're looking for loss positions, a lot of Canadians hold preferred shares in taxable accounts as a kind of tax-optimized, fixed-income equivalent. Many of them are in loss positions because of recent interest rate movements. Couple one of those losers with a big winner and come April 2016, the tax liability on the transfer should be minimal.

And the bonus will be that henceforth, the security now in the TFSA will never again generate taxable income reported on those T-3 and T-5 slips.

**Wrapping up**

As a general guideline, keep doing this every year, preferably in January to maximize the time value of money: $10,000 each or $20,000 per couple. (As always, seek out a professional tax advisor for guidance specific to your individual situation.

Those in their 60s and 70s or approaching retirement can take a similar tack with their RRSPs and

RRIFs. You want to gradually withdraw money from those registered plans, pay the tax (which will be considerably more than the capital gains tax described in our TFSA transfer examples above), and live happily tax-free for the rest of your life on the portion of your wealth that’s been moved to the TFSA.

**CATEGORY**

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**Date**
2025/07/21
**Date Created**
2015/05/06
**Author**
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