

The TFSA cap will stay at \$5,500 for 2017, and we have low inflation to thank for it



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Fotolia The annual TFSA limit will stay at \$5,500 this year

The annual TFSA dollar limit will remain frozen at \$5,500 for 2017 and, in fact, may be stuck at that level until at least 2019, as a result of years of low inflation and the unusual rounding mechanism built into the TFSA limit.

This week, the Canada Revenue Agency announced the inflation rate - 1.4 per cent - that will be used to index various personal income tax and benefit amounts to inflation. This rate is calculated using the Consumer Price Index data as reported by Statistics Canada.

Increases to the tax bracket thresholds, and various amounts relating to non-refundable credits, such as the basic personal amount and the age amount, take effect on Jan. 1, 2017 while increases in amounts for certain income-tested benefits, such as the GST/HST credit take effect on July 1, 2017, coinciding with the beginning of the program year for these benefit payments.

So, while the basic personal amount, which represents how much income each individual can receive tax-free, will increase to \$11,635 from \$11,474, the TFSA limit will stay frozen at \$5,500. Why?

To help understand this, we need to go back to the history of the TFSA, which was launched in the 2008 federal budget and first became available to Canadians for the 2009 calendar year. The initial annual contribution limit of \$5,000 has now risen to \$5,500, with a brief flirtation at a \$10,000 limit for the 2015 calendar year. Unused contribution room can be carried forward to future years such that the cumulative limit for someone who has never contributed can be as high as \$46,500 in 2016. As an added bonus, any withdrawals from a TFSA get added back to your contribution room the following calendar year.

Under the tax rules, for 2016 and each subsequent year, the annual TFSA dollar limit is fixed at \$5,000, indexed to inflation for each year after 2009, and rounded to the nearest \$500, presumably to make the annual limits easy to remember. Contrast this with the maximum RRSP limit, which for 2016 is \$25,370 (rising to \$26,010 for 2017) which is difficult to remember, even for tax pros. These odd numbers are the result of full indexation (with no rounding) introduced to the RRSP limits starting in 2011.

Each fall, the Canada Revenue Agency announces the indexation increase for the following calendar year. The "indexation factor" for 2016 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 ended Sept. 30, 2016 relative to the average CPI for the 12-month period ended on Sept. 30, 2015.

If we calculate where we are in the TFSA inflation-adjustment game, starting with \$5,000 for 2009, we then adjust for the inflation factors for 2009 (0.6 per cent), 2010 (1.4 per cent), 2011 (2.8 per cent), 2012 (2.0 per cent), 2013 (0.9 per cent), 2014 (1.7 per cent), 2015 (1.3 per cent) and finally 2016 (1.4 per cent), we get \$5,637 (i.e. $\$5,000 \times 1.006 \times 1.014 \times 1.028 \times 1.02 \times 1.009 \times 1.017 \times 1.013 \times 1.014$), which rounded to the closest \$500 gives us a \$5,500 TFSA limit yet again for 2017.

Indeed, if the annual inflation number continues at 1.4 per cent annually, it would actually take until 2019 before the TFSA annual contribution limit rises by its next \$500 increment to \$6,000.

In the meantime, if you've never opened up a TFSA and you were at least 18 years of age in 2009, your total TFSA cumulative limit is about to become \$52,000 in 2017. As a result, there is no excuse for not maximizing your TFSA contributions if you have non-registered funds. After all, where else can you earn tax-free income for life and pay no taxes on death on your entire accumulated TFSA's value?

Jamie.Golombek@cibc.com¹

Jamie Golombek, CPA, CA, CFP, CLU, TEP is the Managing Director, Tax & Estate Planning with CIBC Wealth Strategies Group in Toronto.

References

1. jamie.golombek@cibc.com