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Everything you wanted to know about tax-free savings accounts

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My favourite gift this Christmas was a T-shirt my kids bought me that says, "The Bank of Dad" on the front. Don't I know it. After spending much on the kids over the last few weeks, my youngest told me a knock-knock joke that seemed particularly apt: Knock, knock! Who's there? Halibut. Halibut who? Halibut lending me 20 bucks for the movies? Which I did.

When it comes to my kids and money, I've decided that it's time for them to become more acquainted with saving. So, my two oldest have started the process of setting up tax-free savings accounts (TFSAs). As we head into 2018, here's a primer on TFSAs and an update for you on a few TFSA issues.

Eligibility for a TFSA

If you're a Canadian resident who has reached age 18, you're entitled to have a TFSA. Now, the age of majority in some provinces is 19, so you won't be able to open an account in those jurisdictions until you're 19. Still, your accumulation of contribution room will begin at age 18. Sorry, but you can't open a joint TFSA, or open a plan in the name of a business, corporation, or trust.

Contribution limits

TFSAs have been around since 2009, and if you were 18 or older in 2009 you've been able to contribute the following amounts to a TFSA: $5,000 each year from 2009 to 2012, $5,500 for 2013 and 2014, $10,000 in 2015, and $5,500 for 2016 and 2017. So, your total contributions to TFSAs up to the end of 2017 can be as much as $52,000.

Add another $5,500 for 2018 and your total contributions can be as high as $57,500 starting Jan. 1, 2018.

You don't need to have earned income to contribute to a TFSA, and any unused contribution room can be carried forward indefinitely. If you over-contribute to your TFSA, you'll face a penalty of 1 per cent per month on the excess contribution.

Making withdrawals

Withdrawals from your TFSA are tax-free and can be made at any time. If you withdraw an amount from your TFSA, you can recontribute that same amount starting in the next calendar year.

So, if you withdraw, say, $5,000 on or before Dec. 31, 2017, you'll be able to recontribute that amount starting Jan. 1, 2018. If you wait until January, 2018, to make a withdrawal, you'll have to wait until 2019 before you can recontribute that amount.

Making transfers

You're allowed to transfer assets from one TFSA to another. While there might be transfer fees to pay (speak to your financial institution), there won't be any income tax to pay.

You can have as many TFSA accounts as you want, but your contributions to all of them cannot exceed your total contribution limit.

Paying management fees

If you personally pay for investment management fees that apply to your TFSA (or RRSP and RRIF, for that matter), the taxman has confirmed that this will constitute an "advantage" to your plan and will be subject to a 100-per-cent tax on the value of those fees. This administrative policy was to become effective Jan. 1, 2018, but the CRA has recently announced that this deadline has been extended to Jan. 1, 2019, to allow more time for financial institutions to make necessary adjustments. The bottom line? Pay your investment management fees from inside your plan starting 2019.

Separating or divorcing

TFSA assets can be transferred between spouses upon a breakdown of your relationship. If you make a direct transfer from your TFSA to your spouse's plan, you won't be entitled to additional TFSA contribution room to compensate. If, however, you withdraw the funds from your TFSA before giving the funds to your spouse, the amount withdrawn will be added back to your contribution room the following year. In this latter case, your spouse will need to have his or her own TFSA contribution room to then put the funds into his or her own TFSA.

Carrying on a business

In 2016, the CRA started auditing TFSAs where the investors were making such frequent trades in their plans that CRA considered these folks to be carrying on a business. Profits from a business cannot be sheltered inside a TFSA. To-date CRA has reassessed more than $75-million in additional taxes resulting from these audits. You'll want to avoid "carrying on a business" in your TFSA. Check out Interpretation Bulletin

IT-479R, Transaction in Securities, to see the factors developed by the courts that are relevant in determining whether your transactions constitute carrying on a business.