Tax Free Savings Accounts

(TFSA)

Great Scheme – Bad Dream

There are in excess of 13.2 million Canadians who have opened a TFSA. However, millions of these people are quietly asking, just what was the purpose of this program? Was it to create a place to put Ultra Safe investments that produce virtually no return, or was it exactly the opposite, to create a place where the investor could place their funds at a slightly higher risk, stimulate the economy without government intervention and receive a substantially better, tax-free return?

This program was introduced in 2009 by then Finance Minister Jim Flaherty and was intended by the Government of the day, to encourage and stimulate investment into Canada's technology sector. This sector has always been starved for investment, right back to the days of the Avro Arrow. Many of the innovative ideas and businesses, either failing outright due to lack of funding or being sold off to the US and other countries for a trifling. It was thought that a TFSA type of plan had the potential to fund these companies and stop the bleeding.

6 years after implementation of the TFSA program and with almost $130 billion accumulated in these plans, the result is an unmitigated disaster. Almost all of this money is devitalized, invested in GIC type accounts earning 1% to 2%. Awesome! An investor places $5,000 into a TFSA and gets what amounts to virtually zero performance of $50 to $100 interest and saves perhaps $20 to $40 in tax; <u>AND</u>, the invested funds did absolutely nothing for the economy in general, or for the technology sector specifically. What are we thinking??

The TFSA program is completely misunderstood by both the Canadian citizens who own them and by the financial institutions that are taking their money. Let me give you an example:

> *A friend of mine told me a friend of his had recently bought controlling interest in a Junior Oil Company and the prospects were looking very promising. He said he had bought $10,000 worth of shares in the Company and said that he thought the shares would rise substantially if the exploratory drilling work proved successful. He told me he had paid $0.20 per share and they could rise to $2.00.*
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> *I asked him if he had purchased the shares through his TFSA account? He said in a rather astonished manner, "you can't do that!" My reply was "**oh yes you can, and not only** **can** **you do that, from a tax planning perspective, it is essential that you do that**". The tax implication of a profit like this, $10,000 at $0.20 would yield $100,000 if sold for $2.00, showing a profit of $90,000:*
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> - ***The tax on that would be as much as $45,000***.
> - *If you were able to qualify this as a capital gain, then only half of the profit (or $45,000) would be taxed.* ***This is still $20,000 to $22,500 of tax to pay.***
> - ***If he bought this through his TFSA, the tax would be <u>ZERO</u>.***

Why don't people (and their financial advisors) know this? Although the intent of creating TFSAs was not to invest in Oil Plays, Oil Plays qualify; and so do hundreds of other investments. Yet we have virtually all of this money (pushing $130 billion) languishing in low interest GIC type accounts while the technology sector is still looking for scraps.

Good Idea – Bad Implementation

What has been done is that we have placed almost all of the TFSA capital, in the hands of financial institutions that are ill-equipped to direct investment into any industry, let alone the poorly structured technology sector. There are 2 primary reasons that make the existing financial institutions poor choices for holding TFSA money:

1. The existing institutions specialize in debt. A TFSA used properly, should be invested in equities.
2. The existing institutions specialize in tangible assets. A TFSA used properly, should be invested in companies that are rich in intangible assets.

Just an opinion, but TFSA money should be your risk-taking fund (like the Oil Play investment). Our position as we save for retirement, seems to be that taking any risk whatsoever with those tax sheltered funds, is not even up for discussion. Yet there is fundamentally a huge difference between risk for risk's sake and that of calculated risk versus return equations. What most people do not factor into the equation, is the risk of saving diligently for retirement their whole lives, and "risking" running out of money because they took too safe a path and got too little return on their investments. **With Risk, comes Reward, with no Risk, comes Nothing!** Putting your TFSA money into a GIC, is the investment equivalent of "stuffing it into your mattress", it is safe from risk, but it is also completely guarantees that you get no growth on your money.

When you get your next TFSA statement, take a good look at it and then consider the following:

1. Control your own destiny or someone else will. Your financial advisor's interests may not necessarily align with your own. The advisor's intention may be to place your TFSA money in financial products that will ultimately benefit them more than they benefit you. Remember, they get paid, by what you invest in.

2. Change your opinion about what your TFSA goals are. Think of this money as your "risk" fund and use it for a higher risk investment. **Remember if the risk works, the reward is TAX FREE.**

3. Take some time to consider your TSFA. Determine what you really want and then remember that you can self-direct your TFSA – after all, it's your money

4. Invest in our country's future. If Canadian's don't believe in their technological future, nobody else will. Remember the Avro Arrow!! Canada has some of the sharpest, brightest young minds in the World, inventing groundbreaking technologies. These technologies will wither on the vine if we don't invest in them. By investing TFSA money differently, we can assist in the creation of successful businesses, with jobs and growth potential that stimulate the economy and pay excellent returns, to those who took the risk.

5. Do your homework. After all, as mentioned earlier, it is your money.