

This guide is designed to help you navigate conversations with clients about TFSA contribution limits. The CRA has emphasized the importance of avoiding overcontributions, which can lead to penalties. Use this guide to provide clear and accurate information, and to support clients in managing their accounts responsibly.

What is a TFSA?

A Tax-Free Savings Account (TFSA) allows Canadians to earn investment income tax-free. Contributions are not tax-deductible, but withdrawals are tax-free.

Contribution Room & Limits

What is my TFSA contribution room?

Your contribution room is made up of:

- **Annual limit:** The TFSA dollar limit for the current year as set by CRA. Refer to the [CRA website](#) for more information.
- **Unused room:** Unused contribution room from previous years.
- **Withdrawals:** Withdrawals from previous years (excluding direct transfers).

How do I check my TFSA limit?

Log in to your **CRA My Account** to:

- View your contribution room.
- Confirm your TFSA is registered.
- Review transactions.
- Track your contributions (you are responsible for tracking contributions).

Overcontributions

Can I overcontribute to my TFSA?

Yes. If you contribute more than your available TFSA room, you'll pay a penalty tax.

How does overcontribution happen?

- Setting up **pre-authorized contributions** and adding extra deposits without checking your limit.
- Having **multiple TFSAs** at different institutions and not tracking all contributions.
- Making an **indirect transfer** between TFSAs counts as a contribution. This occurs when you withdraw funds from one TFSA and then deposit the funds into another TFSA.

What happens if I overcontribute?

- CRA charges **1% per month** on the excess amount until it's withdrawn.
- You'll receive a notice or letter via your CRA account or by mail.

How do I fix an overcontribution?

- **Withdraw the excess amount immediately** to reduce penalties.
- CRA may waive or cancel the tax if you provide a written explanation showing it's fair to do so.

Tips to Avoid Penalties

- Track contributions across all accounts.
- Check your CRA account before making deposits.
- Be cautious with transfers between TFSAs.

Resources

- CRA - Tax-Free Savings Account (TFSA): <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account.html>.
- CRA - My Account: <https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html>.