

HOW TO EXPAND YOUR TFSA ROOM - THE VCC METHOD



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ABOUT THE AUTHOR

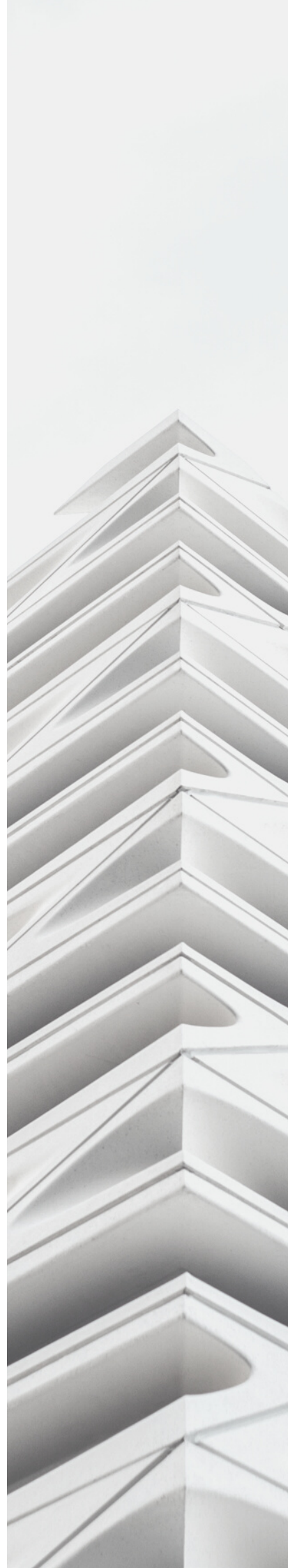


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Alex is a Financial Advisor with Monic Financial Ltd. where he brings a wealth of experience from his diverse background in non-profit to deliver a responsible and compassionate model of investment for his clients.

A graduate from the University of British Columbia with a Bachelor of Arts, Alex gained extensive experience throughout his career in fundraising and direct care in his years working with non-profit organizations across Vancouver, British Columbia. From his unique financial background, Alex is committed to providing an exceptional client experience based on a deep understanding of client concerns and needs.



THE TFSA PROBLEM

Tax Free Savings Accounts (TFSA) are a government incentivized savings vehicle created to encourage Canadians to not only save, but be able to earn investment income on a **tax-free** basis. Contributions into the account however, are not tax deductible. Resoundingly though, the TFSA is a reliable savings vehicle that we at Monic Financial encourage everyone to maximize their contributions to if they are able to.

However, there are limits to how much you can contribute yearly to your TFSA account. **As of 2021, your current maximum contribution is \$6,000.**

YEAR	ANNUAL LIMIT	CUMULATIVE LIMIT
2009	\$5,000	\$5,000
2010	\$5,000	\$10,000
2011	\$5,000	\$15,000
2012	\$5,000	\$20,000
2013	\$5,500	\$20,500
2014	\$5,500	\$31,000
2015	\$10,000	\$41,000
2016	\$5,500	\$46,500
2017	\$5,500	\$52,000
2018	\$5,500	\$57,500
2019	\$6,000	\$63,500
2020	\$6,000	\$69,500
2021	\$6,000	\$75,500

Here is where you might identify a problem though - **there is only so much tax-advantaged savings you can contribute every year.**

This is a problem which is only compounded onto by other factors.

Whether you are young and beginning your investment journey and would like to do so with a larger starting capital in your TFSA or you are an experienced investor looking to replenish losses you may have made in your account, **the TFSA contribution limit restricts your ability to invest in both public or private investments going forward irrespective of your capacity for risk or goals.**

WHAT THE HECK IS VCC?

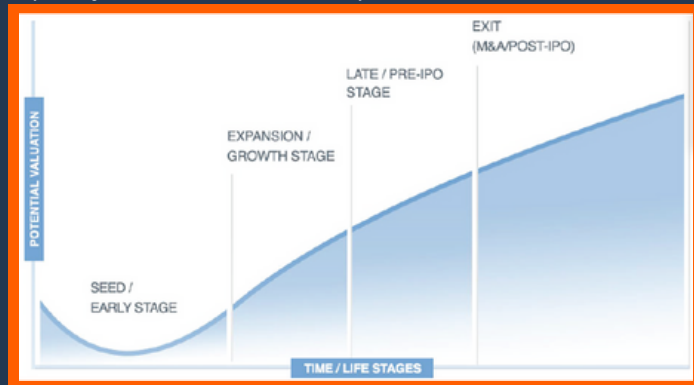
As retail investors get more and more avenues and resources to manage their own portfolios - with apps such as Robinhood and Questrade becoming increasingly popular - engagement with TFSA's and registered plans have never been higher and as such it is increasingly important to set yourself up with the TFSA room necessary for you to achieve your objectives.

Great! But how do I do that?

Through
Venture
Capital
with VCC!

VENTURE CAPITAL CORPORATION

As companies seek to expand and find growth opportunities, oftentimes they will participate in raising capital from **Venture Capital Corporations (VCC)** investors by allowing them to invest in their company for an ownership stake.



The business gets the capital it needs to expand, and the investors get to participate in the growth of the company. A famous example of this Peter Thiel and his Venture Capital Corporation, the Founders Fund, investing early with Facebook, Spotify, Airbnb, SpaceX, among others. Upon continued growth of the company, **Venture Capital Corporations bring their expertise to help these companies transition from private companies to public, generating even more investment capital.**

SOLVING THE TFSA PROBLEM WITH VCC

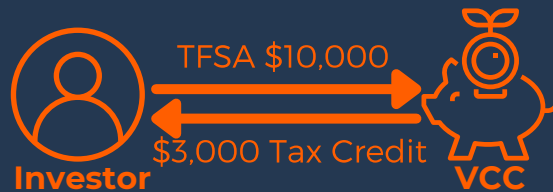
To expand your TFSA room, there are 3 steps to understand:

1. VENTURE CAPITAL TAX CREDIT

In order to support investment into these growing businesses and to further stimulate the economy, the Government of British Columbia offers Venture Capital Corporations what's known as a **Small Business Venture Capital Tax Credit**.

Individuals, not entities, who invest in shares of these receives a **30% refundable tax credit** during the same tax year the investment was made in or within the first 60 days of the next year.

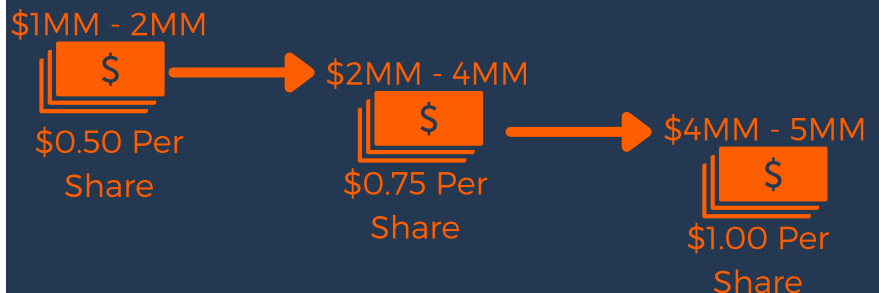
EXAMPLE: Assuming you invest \$10,000 from a **new or existing contribution into your TFSA** to an example VCC, getting 20,000 shares at \$0.50 per share, that same year you will get a \$3,000 tax credit and as such your investment has within the same year made a 30% return.



2. VCC INVESTMENT STRUCTURE

Here is where the structuring of VCC investments help to expand your TFSA room. As shares of some VCCs may be issued in tranches, meaning at fixed intervals, an example VCC may seek to raise \$5MM in total. In this example, their first fixed interval offers shares at \$0.50 up to \$2MM. Once they have raised beyond \$2MM, the example VCC moves onto it's next interval - and so forth.

EXAMPLE OF A VCC TRANCHE STRUCTURE:



ELIGIBILITY CRITERIA

Eligibility for the tax credit is subject to strict requirements applicable to the approved issuer, investor, and registered dealing party before any tax credit certificates may be claimed. Subject to these requirements, the tax credit is not guaranteed. Individuals investing using registered accounts are also subject to compliance restrictions to remain eligible for tax credits and any breach may constitute a loss of tax credit or repayment to the BC government. To learn more about which eligibility requirements are applicable to you, you may contact us at www.monicfinancial.com.

SOLVING THE TFSA PROBLEM WITH VCC

From our example above, the \$10,000 TFSA investment you made is now worth \$20,000 just by virtue of the VCC successfully raising the capital it needs and therefore, your TFSA room relating to your VCC investment has now effectively doubled.

3. MAKING ROOM IN YOUR TFSA

Now, as your shares have grown in value and your TFSA room has expanded, its time to begin withdrawing the shares from your TFSA and begin what's known as an **In-Kind Contribution** to your **Registered Retirement Savings Plan (RRSP)**.

Continuing our example above, assuming the investor has \$20,000 of RRSP room available, they can contribute in-kind to their RRSP upon withdrawing the shares and receive another tax benefit based on their marginal tax rate - **in this example we will use 40%**.

In total, the investor would have received an initial tax benefit of \$3,000 followed by another \$8,000 when transferring to their RRSP, a expanded TFSA room to be replenished from the growth of their investment through the tranche structure, and further potential for appreciation as the investment sits until the VCC can exit their investments.

INTERESTED IN EXPANDING YOUR TFSA ROOM?

Contact us at:
WWW.MONICFINANCIAL.COM
 to enquire about your suitability for the VCC Method.

SOURCES

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