



3 Reasons Why Everyone Should Open a TFSA

Description

Registered accounts are still a mystery to many people. I can't count the number of times that I have heard people say that they are going to "buy" a TFSA, RRSP, or RESP. These are not products. They are types of accounts in which you can invest in any number of assets like stocks, bonds, and even gold. The only difference is the fact that each account enjoys a unique tax status that is not applicable to unregistered accounts.

From my experience, one of the most frequently misunderstood and underused accounts is the Tax-Free Savings Account ([TFSA](#)). Anecdotally, most people have either not opened this powerful account or have painfully underutilized it. If you are one of these people who has not yet tapped into the powerful growth of the TFSA, here are three reasons why you should maximize it ASAP.

Reason #1: It is truly tax-free

This is one of the few accounts that allows income to accumulate totally tax-free. The reason for this is simple: you fill it up with money that you have already paid taxes on. In stark contrast to the RRSP, you will not pay a dime of tax on the money you earn and subsequently withdraw from the TFSA.

RRSPs provide you with a tax credit, which you can apply against earnings. This is fantastic if you are earning a massive salary, but for the average low-income earner or retiree, RRSPs are less useful since the write-off may not be substantial and you are taxed on any withdrawals.

This means if you buy shares in dividend all-stars such as **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) and **Emera** ([TSX:EMA](#)), you will be able to keep all the income and capital gains earned on these stocks tax-free. Those [greater than 5% dividends](#) will be yours to keep.

So, if you are retired or simply need the income to supplement your wages, you can withdraw money earned in the account without paying tax on it as it comes out of the account.

Reason #2: You can replace the money you withdraw the following year

Yep, you heard that right. The money you withdraw from the account can be put back in the following tax year. So, if you withdrew \$2,000 in 2018, you can put that money back into the TFSA in 2019 along with the new \$6,000 addition.

But BEWARE. There is one major factor to consider: DO NOT put money back in before the new year comes about. If you do, you will be heavily punished for over-contributing. Check with your accountant, check your online CRA account, and/ or phone the CRA to make sure you are putting in the correct amount.

Reason #3: It is the perfect retirement or emergency fund

For the reasons previously mentioned, whether you are a retiree or a student, this account is perfect for an emergency fund. Emergencies, by definition, rarely happen. If you put money into this account to accumulate over time and an emergency does not occur, it will continue to compound, leaving you with even more money available for unforeseen events. If something does come up and you need to access this account, you can replace the funds in the following year.

Because you are keeping high-yield stocks in your TFSA, over time you may be able to use the income from those stocks as your emergency cash source. As of 2019, the total contribution room available, including the 2019 contribution, is \$63,500. If you invest the money in solid, 5%-yielding stocks like BCE and Emera, you will generate over \$3,000 a year in tax-free cash that you can use without even selling your stocks. Over time, this number will only grow larger.

What it all means

Don't let anyone trick you; this account is not for just the rich. It is the great equalizer — the place where people, no matter their stage in life and income level, can put money in to benefit from its tax-free compounding power. There is no downside to this account, other than the fact you cannot replace withdrawn money until the following year. If you have not already done so, open a TFSA and maximize this account to take advantage of its compounding power today.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:EMA (Emera Incorporated)

PARTNER-FEEDS

1. Msn
2. Newscred
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