



## 3 Ways a TFSA Can Help You Reach Your Financial Goals

### Description

Tax-Free Savings Accounts (TFSAs) are among the most popular accounts for holding investments. Offering tax exemptions, flexible withdrawals, and high interest on cash holdings, they're among the best places to put your money and watch it grow. Although TFSAs don't offer quite the same level of tax protection as RRSPs, they're much more flexible, making them better vehicles for investments that aren't necessarily intended for retirement.

TFSAs are fantastic for account holders with a variety of financial objectives. Whether you're saving for retirement, investing for fun, or just looking for competitive interest rates on cash, there are plenty of ways that a TFSA can help you reach your financial goals. The following are just three of the most powerful.

### Tax-free gains

The biggest benefit of TFSAs is that capital gains and dividends held in them are not taxed. This means that you get to hold on to a greater percentage of your returns in a TFSA than you would in a regular brokerage account. This can be a particularly powerful incentive if you own a stock like **Lululemon Athletica** ([NASDAQ:LULU](#)), which has risen 123% in just two years and has the [earnings growth](#) needed to keep it up. The bigger your return, the more you pay in taxes, and with a 61% a year gainer like LULU, you'll want to keep those taxes as small as possible.

### No penalty for withdrawals

So far, you might be thinking, "all of these tax breaks sound great, but why should I get a TFSA when I can get all of those benefits PLUS a tax deduction with an RRSP?"

The answer is simple: flexibility. With an RRSP, if you try to withdraw before age 71, the withdrawal is treated as extra income and gets [taxed at your marginal rate](#). In other words, withdraw from an RRSP early, and suddenly all your tax benefits turn into liabilities. This is not so with a TFSA. With a TFSA, you can withdraw at any time; not only are the investments not taxed while in the account, but the cash

you withdraw afterward isn't taxed either.

## High interest

So far, the TFSA benefits mentioned in this article have been for investors who want to enjoy tax protection on their holdings. But what if you're not an investor? What if you're just a saver who wants to get the best interest rate possible?

Here again, the TFSA shines. In addition to all the generous tax benefits, TFSAs also offer some of the highest interest rates in the land, with **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) in a TFSA currently yielding 3%. That's guaranteed bank deposit interest that exceeds many stocks' dividend yields! Although 3% is not in itself a great "return," it puts you well ahead of inflation, and if you're a high-income earner putting away tonnes of cash every year, that may be all you need to position yourself to retire in good shape.

### CATEGORY

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1. NASDAQ:LULU (Lululemon Athletica Inc.)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
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**Author**  
andrewbutton

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