2 Ways Canadians Are Underutilizing Their TFSAs

Description

A TFSA is a very useful tool to help Canadians save money. However, according to a recent poll done by **Royal Bank of Canada**, it found that many people were misinformed about the savings accounts. RRSPs have often been the default savings option that banks have pushed on people, and so it may not come as a big surprise that people are not nearly as familiar with TFSAs.

Why stocks should be held in a TFSA, not savings or cash

One of the interesting findings from the survey was that just 19% of Canadians used a TFSA account to hold stocks, while 42% used it for savings and cash. That's a missed opportunity, because probably the most attractive feature of a TFSA is that it can help shield gains and dividend income earned on an investment from taxes.

With an RRSP, investors are simply deferring their tax liabilities until they withdraw the funds. Inside a TFSA, however, the earnings are tax-free, regardless of when cash is withdrawn. Take, for example, a stock like RBC. You'll earn a dividend of around 4% per year, and not only will that income not be taxable if the investment is held within a TFSA, but if you sell the stock for a gain, then that will also be tax-free.

It gives investors a great opportunity to earn income without worrying about taxes, and holding stocks is the best way to maximize the potential profit. Holding savings that may earn 1% or 2% will help shield some taxes, but it will pale in comparison to what can be achieved by holding stocks. Meanwhile, cash inside a TFSA yields no benefit, since it's not earning any return, and doesn't need to be held in a TFSA since there is no tax advantage to doing so.

Simply buying and holding a stock like RBC inside a TFSA could prove much more advantageous and profitable for an individual rather than holding cash or a low-interest savings account. It's not a risky investment to make, and the bank stock will likely not only pay a dividend but rise in value over the years. In addition, the bank stock has a great reputation for increasing its dividends and did so earlier this week when it released its third-quarter results.

Although RBC’s stock has had its share of dips over the past couple of years, in 10 years its share price has increased by more than 70%, and it’s likely to continue rising in value for the foreseeable future.

Many people don’t withdraw funds

Another interesting number from the survey was that 65% of those that had a TFSA did not withdraw any money from their accounts. Again, this looks to be a result of RRSPs often being used by Canadians and funds there typically being locked in until retirement.

However, another key advantage of a TFSA is that since the funds contributed are after-tax, there are no tax consequences for investors to pull the funds out. The only danger comes if an individual wants to re-contribute a withdrawn amount, as the contribution room does not get replenished until the new calendar year. Flexibility is one of the key benefits of a TFSA and it’s an area where Canadians may be underutilizing their accounts.

While there are some pitfalls for investors to avoid when using TFSAs, learning how to use the accounts can be very beneficial and save individuals a lot of money.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/26

Date Created
2019/08/23
Author
djagielski