TFSAs: The Best Tool for Building Wealth

### Description

In Canada, we are extremely lucky to have tax-free investing options. Taxes on investing income can eat up a significant amount of returns for investors.



Even if it’s just a few percent of your entire portfolio each year, over time it will add up to a crazy amount, so tax planning is a crucial part of building yourself an investing plan. You should also take advantage of the tax-free accounts.

Luckily, there are two options for investors: the Registered Retirement Savings Plan (RRSP) and the Tax-Free Savings Account (TFSA). Both are considered what is called a registered account, meaning there are certain restrictions on the types of trading you can do.

You may be wondering, what’s the difference, and which is better for you? There are a number of differences as well as similarities, but each person will have a separate answer based on your personal situations.

It’s important to understand the main differences, as your circumstances may change over time, and the better option for you may consequently change as well.

Since both are so important and have so many different features of them, today we will only focus on the TFSA.

## TFSAs

TFSAs in general are better off for individuals who earn less income. Not only will there be less tax for you to defer now anyway, but deferring it can have impacts in retirement that may rob you of government assistance you are entitled to.

TFSAs also have a fixed amount of contribution room, where your RRSP room will be calculated.

Another benefit of the TFSA is that money can be withdrawn anytime tax free, and the contribution room will open back up the next calendar year.

This makes TFSAs useful for people who may not be saving for retirement, but rather something shorter term like a house, or car, or maybe even just an emergency fund.

You may be wondering how much you can commit. For somebody who has been eligible since TFSAs were introduced in 2009, the total contribution limit as of 2019 is $63,500.

TFSAs are extremely useful for those investors who make a lot of income from their investments, but that doesn’t mean investors should target a high-risk, high-reward strategy.

It may be tempting to shoot for the moon, but if your portfolio is too dangerous, you could risk losing contribution room, which you can never get back.

Thats why TFSAs are best used to save you tax in the long run, by allowing investors to retain 100% of their profits and compound it annually.

A stock like **Enbridge** (TSX:ENB)(NYSE:ENB) would be perfect for a TFSA. It’s a large, stable company that will continue to grow for the long term. It also pays a dividend that’s yielding around 6.4%, which you can keep 100% of.



This means you can use the increased money you would have otherwise paid in taxes to invest immediately and start compounding that extra income.

In addition, you are bound to save a ton of money on the capital gains tax too, because Enbridge is sure to continue to appreciate for decades.

The way its contracts are made up give it a ton of stable and predictable cash flows, which allow it to manage its finances well.

It’s also in an industry where its top line will be only slightly affected by poor economic conditions, so you don’t have to worry about losing contribution room to a poor investment.

# Bottom line

The TFSA is a powerful tool that investors have to help them save and build wealth for whatever it is they are saving for. Since the rules around it are flexible, you can use it to save for short-term things or a long-term goal such as retirement.

It’s a tool more Canadians should use, especially because the amount of money you can save is huge, especially if you are finding great companies and buying them cheap.

**CATEGORY**

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2. Stocks for Beginners

**TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

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