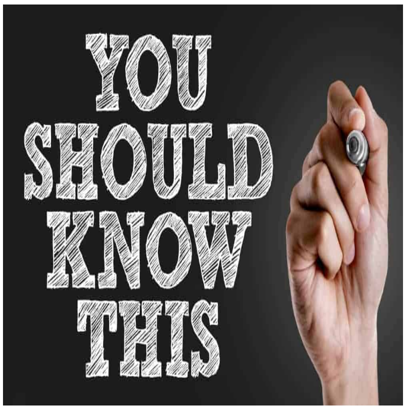

Hate Taxes? Then Do This 1 Awesome Trick With Your TFSA and RRSP

Description

We all hate to pay taxes. As Canadians, we get to enjoy free health care, beautifully preserved nature, and world-class infrastructure. But we also pay extremely high taxes to get these things.

Luckily, the government has provided us with fantastic investment tools that will help us grow our bank accounts. You're probably familiar with the Tax-Free Savings Account (TFSA) and the Registered Retirement Savings Plan (RRSP). If you're one of the 32% of Canadians who don't know the difference between the RRSP and TFSA, make sure to read this article.

This awesome trick you will learn here requires you to understand the difference between the two.

Start with the TFSA

When you're in your 20s and starting your career, there's a high chance you won't be maxing out your TFSA and RRSP. There's also a good chance that you won't be making a huge amount either, so your marginal tax bracket should be lower. Start by saving whatever you can into your TFSA, since it is the most flexible investment account.

Grow your money in your TFSA

Your TFSA is an extraordinary tool. If you manage it correctly, it is possible to grow it to a considerable amount. The TFSA is ideal for investing, since all your dividends, capital gains, and interest is growing tax-free within the account.

Let's look at an example of investing in a company like **Fortis** (TSX:FTS)(NYSE:FTS) in your TFSA. This $24.166 billion gas and electric utility company is a shining example of reliability for Canadian stocks. Fortis has increased its dividend for 45 years, which has a current yield of 3.45%.

It is possible that Fortis can maintain this track record for the foreseeable future. The company has a geographically diversified energy-delivery business. Most of Fortis's revenue comes from regulated utility rates, which gives stability to its cash flows and income.

Had you invested $10,000 in Fortis just five years ago and reinvested all dividends in your TFSA, it would be worth $19,440 today, or almost double.

Transfer to the RRSP

Here’s where the neat trick comes in. After working into your career and growing your TFSA, your income will likely grow higher as well. You will more likely be in a higher income tax bracket as a result.

To give you an idea of how much you can save in taxes, in British Columbia, the combined federal and provincial marginal tax rate for incomes between $40,708 and $47,630 is a reasonable 22.80%. By the time you reach an income of between $95,259 and $113,506, your tax rate will be a steep 38.29%. That is a high amount and one that can be brought down with this technique.

If you find yourself in a higher tax bracket with room in your RRSP and a now large TFSA, you can withdraw some money from your TFSA and contribute to your RRSP. You will get a larger tax refund by doing this than if you were to add to your RRSP from the start.

This technique could save you countless thousands of dollars in the long run. The RRSP is less flexible, but you should be nearer to retirement age at this time and require less flexibility.

Conclusion

Everybody hates taxes. Use this trick to pay as little as possible, while saving the maximum you can for your retirement.

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