



TFSA Stock Market Millionaires Lower Canada Tax Revenue

Description

Untaxed TFSA millionaires from stock market investments such as the reliable dividend payer **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) are more likely to earn high incomes. The Conservative Party intended to increase the accessibility of wealth creation for millions of middle-class Canadian citizens. Today, the program is costing the Canada Revenue Agency millions of dollars in tax revenue every year.

In 2009, Canada introduced Tax-Free Savings Accounts (TFSAs) to encourage more citizens to save money. Initially, the government marketed the tax-free savings program as a way to expand [tax-savings strategies](#) for low- to middle-income Canadians. In practice, Canadians hold 42% of their TFSA funds in cash savings, and the wealthy disproportionately invest more in high-return assets.

High ratios of cash to stocks and term deposits are lowering the social benefits of the TFSA program through lower tax revenue. Middle-income Canadians are less likely to maintain high-return investments like stocks in their TFSA. Meanwhile, rich Canadians have been taking greater advantage of TFSA tax benefits because it is easier for high-income individuals to save money.

Wealthy Canadians invest more

If you make \$60,000 per year, you would need to save 10% of your income to reach the minimum \$6,000 contribution limit on a TFSA. After meeting the minimum required endowments to employer-sponsored retirement funds, very few Canadians have additional income available for saving.

Wealthy savers can more easily set aside \$6,000 per year to save in a TFSA because it represents a lower percentage of their total annual income. Canadians in higher-paying jobs have more money left over after meeting other investment goals and minimum consumption expenditures to save additional income in a TFSA.

Further, young professionals just coming into high-income careers are better positioned to take advantage of the “carry-forward exception.” Millennials who were unable to meet contribution limits since 2009 can contribute up to \$69,500 into a TFSA to catch up. With a little research and a long-term

mindset, it isn't difficult to turn a \$69,500 TFSA into a million dollars.

TFSA millionaires earn higher rates of return

All dividend interest and capital gains accrue tax-free in TFSAs. If you double the money in your TFSA, you only pay tax on the initial balance. The other half of your account is not taxable, making it easier to grow your wealth more quickly.

If you have not read Thomas Piketty's book *Capital in the Twenty-First Century*, I recommend it. The book seems long, but Piketty mixes interesting anecdotal examples in with statistical analysis, making the book more enjoyable for a wider audience. In the book, he examines disparities between rates of growth in wealth between classes.

One of his main findings of the book is that the wealth of the rich earns higher rates of return than accounts with lower balances. This discovery perfectly complements the old adage, "It takes money to make money." Thus, the more you save, the higher will be your returns, and the faster you will reach your retirement goals.

RBC is the perfect TFSA stock for middle-income Canadians

Royal Bank of Canada is [my top recommendation](#) for everyday Canadians who aren't yet a part of the upper echelon of society or the TFSA millionaire club. RBC is one of the safest and well-respected banks in the world. As far as dividend stocks go, RBC boasts a dependable history of issuing growing dividend payments to shareholders.

At the current share price of \$105.37 at the time of writing, RBC's current quarterly dividend of \$1.05 per share amounts to an annual dividend yield of 3.99%. The great news about RBC stock is that the price history is also stable, meaning your initial investment is more liquid.

It will likely be easier to cash out your RBC investment if you need the cash later for something else. If you are currently retired or approaching retirement, RBC stock will provide strong, trustworthy dividend payments and protection over your initial investment. If you don't currently own shares of RBC in your TFSA, today is a great day to start a new position in this reputable bank.

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