This Is the Best Way to Avoid Paying Taxes in 2020

Description

Want to avoid paying taxes in 2020? The answer is simple: open a Tax-Free Savings Account, commonly referred to as a TFSA. If you already have a TFSA, then congratulations, but don't think you're out of the woods yet. Most people with a TFSA are *still* missing out on tax savings.

Simply having a TFSA doesn't grant you the full power of its tax-shielding capabilities. You need to use a TFSA properly to unlock all of its benefits.

Know the rules

Having a TFSA doesn't mean you understand all of the rules. Even if you're a savvy investor, it's worthwhile to refresh your memory.

Any Canadian adult over the age of 18 who also has a valid social insurance number can open a TFSA. You can invest in nearly any asset with a TFSA, and you contribute using post-tax dollars, meaning that you've already paid taxes.

For example, if you earn wages from your job, you need to first pay taxes on those earnings before contributing them to a TFSA.

The main benefit of using a TFSA is the tax protection. In a TFSA, your money grows completely tax-free. You never have to pay taxes on dividends or capital gains, even upon withdrawal. You can withdraw at any time for any reason.

These benefits make using a TFSA a no-brainer. It's like regular investing, except you pay no taxes, with minimal drawbacks.

The biggest limitation is that you can only contribute so much. Otherwise, you'd be able to shield unlimited amounts of money from taxes. This year, you can only contribute $6,000. Last year, the limit was $5,500.

Notably, unused contribution room *rolls over* year to year. So if you didn't contribute in past years, that contribution room is *added* to this year's annual limit.

If you open an account today, you can immediately contribute $63,500, the sum of each year's annual limit since Canada first launched the TFSA.

Avoid wasting protection

The flexibility you get with a TFSA is unparalleled. If you haven't hit your lifetime contribution max, you're making a big mistake, especially if you have investment dollars in other places.

For example, if you have $10,000 in a TFSA and $10,000 in a normal investment account, you're essentially volunteering half of your money to taxes.

You can likely move all of the money into your TFSA, thus shielding it from taxes while still being able to withdraw it at any point for any reason.

You may also be wasting tax protection by having cash in your TFSA. Taxes on cash earnings are almost always minimal. If you can avoid paying taxes, why not invest in higher return securities?

Even if you want to maintain a low risk profile, short-term bonds often pay *double* what a bank account provides. Don't waste a TFSA's powers by investing in low-return assets.

Wealth generating stocks

An under-appreciated aspect of a TFSA is that it shields you from an *unlimited* amount of taxes. Even if your stocks rise in price by 1,000%, you'll still pay nothing in taxes. If you invest with a TFSA, maximizing your performance potential has never been more valuable.

Choose your investments carefully. More specifically, find companies that can consistently generate wealth for shareholders, through age 50 and beyond.

These multi-decade winners are rare, but they're the best way to maximize the benefits of your TFSA.

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