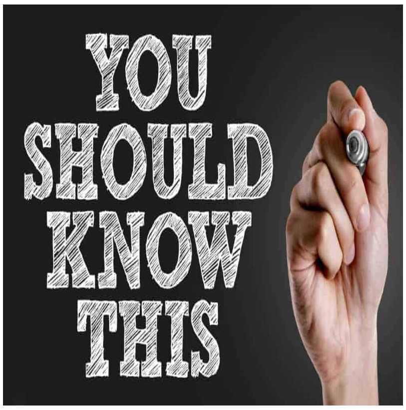

TFSA Investor: Earn 341% More Inside Your TFSA Than a Taxable Account

Description

How great *is* a Tax-Free Savings Account (TFSA), really? Countless articles and authors endlessly shower the TFSA with compliments. You might have heard that it's the most excellent investment tool available to Canadians.

You probably know by now that you can invest in stocks or bonds inside your TFSA. The dividend income, interest income, and capital gains all grow tax-free. You can withdraw it at any time without any taxes.

But exactly how much more money will you end up with if you invest in stock within a TFSA versus a regular taxable account?

I have done the calculations, and the results are surprising.

After 10 years in a TFSA vs. a taxable account

Assume you invest $10,000 today in an investment with an annual rate of return of 7%, and that income is taxed at 30% every year.

After 10 years, you will have $16,134 in the taxable account and $19,672 in the TFSA.

That is a difference of $3,542. While those aren't shocking numbers, they're still significant, representing a 35.42% additional return on your initial investment.

After 30 years in a TFSA vs. a taxable account

Take the same assumption of $10,000 invested today in an investment that has an annual rate of return of 7%, and that income is taxed at 30% every year.

After 30 years, you will have $76,123 in the taxable account and $42,002 in the TFSA.

That is a difference of $34,121, which is a much more shocking difference. This represents a 341% additional return on your initial investment.

Choose a stock

You'll have to choose stocks for your TFSA. A good one to start with is one of Canada's most well-known and respected companies, **RBC** (TSX:RY)(NYSE:RY).

I wanted to choose a stock that everyone would know, and RBC has a presence unlike any other company in Canada. With over 1,200 bank branches scattered across Canada, it's hard to miss the Royal Bank of Canada.

RBC had a slight dip downward in profit for its 2019 Q4 results compared to the year prior. Lower than expected revenues at specific business units and an increase in credit losses accounted for this dip. RBC reported net income of $3.21 billion for the quarter ended October 31, down from $3.25 billion the previous year.

Despite the headwinds, RBC provides a healthy 3.92% dividend yield, which should satisfy income investors and retirees looking for yield.

In the past 10 years, RBC stock has returned 187% of its initial investment. In the past 30 years, that number climbs to an incredible 5,218% return.

While the calculation will be different for calculating stock returns than the above examples because dividend and interest income are taxed differently, you can see from the examples that you could be saving countless thousands in taxes.

Conclusion

The longer you hold something in your TFSA, the more money it will be worth over your regular taxable account. If you buy the stock of a fantastic company like RBC, you can see how holding it over the long term can be massively different for a TFSA versus a normal taxable account.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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