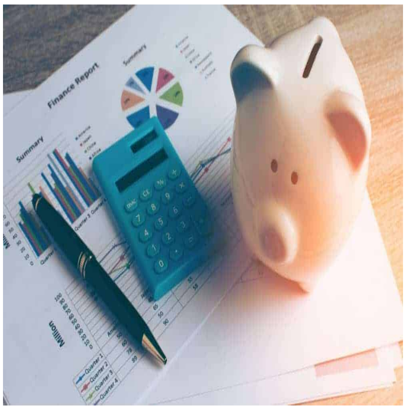

RRSP or TFSA: Which Should You Contribute to 1st in 2020?

Description

The Tax-Free Savings Account (TFSA) and the Registered Retirement Savings Plan (RRSP) are available to Canadians who are investing for financial needs in the short term as well as the long term.

Both the TFSA and RRSP are investment accounts, and therefore, neither one has to be a real savings account. But choosing where you should contribute first in 2020 will depend on your circumstances.

Short-term goal

Your biggest advantage with the TFSA is the flexibility to reach your financial objective faster. If your focus is short term, you have convenient access to money when you need it. However, the TFSA is also useful for long-term goals. You can capitalize on the growth potentials of the assets.

Assuming you're saving for a vacation or an expensive purchase, you can invest in a reasonably priced but high-yielding stock like **American Hotel Income Properties**, or AHIP. You can purchase the stock at only $7.27 per share.

This $567.95 million real estate investment trust (REIT) pays a generous 11.42% dividend. In six months, your tax-free gains from a $50,000 investment should be $2,855 ($475.83 monthly).

AHIP operates select service hotels in U.S. secondary markets. The focus initially was on economy lodging until management saw it fitting to concentrate on the high-end market. At present, this REIT has 79 premium-branded hotels in the portfolio, and the rental income it generates from the properties is higher.

Long-term goal

The RRSP is another investing vehicle. As you contribute to the account, you're growing your money in a tax-deferred environment. But unlike the 100% tax-free TFSA withdrawals, RRSP withdrawals taxed like income. Nevertheless, the RRSP is generally the tool to use if you're investing for retirement.

The choice of investment is crucial if you're building retirement wealth or a nest egg. It would be best if you were particular, with a focus on dependable dividend stocks like **Manulife**. This $53.15 billion diversified financial services company is a buy-and-hold stock.

First and foremost, Manulife is known the world over as the provider of life insurance. For investors, the 133-year-old company is a blue-chip stock. When a stock reaches such status, it means you get the promise of investment quality. Risk-averse retirement planners choose Manulife because it's relatively safe.

For those wanting to have a head start to retirement, this insurance stock pays a 3.72% dividend. Your $100,000 would be worth more than double in a 20-year investment time frame. The stock value could be higher, given the long-term growth prospects of the flourishing Asian market.

Determining factor

Your specific investment goal in 2020 should determine whether you contribute to the TFSA or RRSP first. AHIP is recommended for the short term, while Manulife is right to kickstart your retirement journey.

But if I may offer a valuable tip: you can have your money working in both. Some RRSP users maximize the contributions to get a large tax refund. The tax refund is then placed in the TFSA. The result is a combination of flexible funds in the TFSA and long-term retirement funds in the RRSP.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2020/01/28
Author
cliew