TFSA Investors: Why You May Be Better Off for Retirement

Description

The Tax-Free Savings Account (TFSA) has a number of similarities with the Registered Retirement Savings Plan (RRSP), but it also has a large number of differences.

The differences consist of both advantages and disadvantages of each investing account, and when you compare the two, it's easy to see that the TFSA's advantages far outweigh those of the RRSP.

First and most importantly, the TFSA provides users with far more flexibility, one of the most important things when it comes to money.

The TFSA is also largely important when you consider the rules around withdrawals and the taxes surrounding it.

The main difference between RRSPs and TFSAs is that when you contribute to an RRSP, you get a tax credit to help reduce your taxes today, but when you go to withdraw that money down the road the money counts as income, meaning the taxes you defer today will be owed in the future.

With the TFSA, you don't get the tax credit today; however, you can withdraw the money anytime, and when you do, the funds don't count towards your income, meaning you won't be taxed on it.

It also means that you don't have to worry about TFSA withdrawals affecting your income level, so you won't have to worry about it triggering a clawback in your OAS payments, and you don't need to necessarily plan when to take the money, since you have a lot more flexibility to take and replace as you want.

That's why for many investors, the TFSA will be the number one option to start building a retirement portfolio. And while most investors will utilize both, if you can only max out one, you're probably best off sticking to the TFSA.

Of course, none of this will matter if you aren't investing in high-quality, long-term stocks such as a company like **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

Canadian National Railway was founded over 100 years ago and is one of the biggest and most important companies in the Canadian economy.

It's sheer size and importance to numerous industries across the country is part of the reason why it's such a high-quality company that you will want to buy and own forever.

Of course, the fact that the company is well run and highly profitable is also extremely important, and when it comes to evaluating CNR, the company ticks all the boxes.

CNR is the exact type of long-term stock you'll want to gain exposure to and begin building a core position in your portfolio.

Over time, as your savings grow and you buy other stocks, the percentage of your CNR holdings may end up decreasing.

But since it's a core stock for your portfolio, you'll want to use any major pullbacks in the share price to continuously increase your position over time.

To put it into perspective, investors who were buying CNR back in 2008 (while others were selling) would have seen the value of their shares rise by roughly 450% in just over 11 years.

It's these types of companies, businesses like CNR at the heart of the economy, that you can buy today and hold for 50 years knowing the company's not going anywhere.

Making these high-quality businesses the core part of your portfolio is the only way to ensure long-term investing success.

And you'll definitely want to utilize the TFSA to buy these wealth building stocks to increase your earnings power throughout your investment journey, since you won't pay any taxes on the capital gains or dividends.

And when you do retire and you have a $1 million portfolio, or any amount for that matter, you won't have to worry about claiming any of that money as income, which will make your financial planning in retirement a lot less stressful.

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1. NYSE:CNI (Canadian National Railway Company)
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Author
danieldacosta