# CRA Tax Tips: 3 Ways to Stay Tax-Free With Your RRSP and TFSA

### Description

The assumption when you open a Registered Retirement Savings Plan (RRSP) and a Tax-Free Savings Account (TFSA) is that you want a tax shelter for your money. The RRSP defers your taxes until withdrawal while you're supposed to pay zero taxes on your TFSA.



When maintaining both accounts, the primary objective is to stay tax-free (TFSA) or pay only the regular taxes (RRSP) on the tax-free growth of your money. If you want to realize the maximize tax benefits in each fully, here are some tax tips.

## Keep contributing

If you keep contributing to the RRSP and TFSA, all gains are tax-free inside both accounts. The RRSP's advantage is that you can grow the money tax-free and pay taxes in the future. In the TFSA, everything is tax free.

## No early or spur of the moment withdrawals

Early withdrawals from the RRSP mean forfeiting the tax-free growth of your money. You pay taxes instantly because the taxman treats every RRSP withdrawal as taxable income.

The **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) or Scotiabank is one of the ideal assets to own in your RRSP. Your capital can compound significantly for as long as you hold the stock and resist the temptation to withdraw. The shares of the third-largest banking institution in Canada yield a lucrative 4.94% dividend.

Every time you make a withdrawal, you lose the compounding effect. Keep in mind that the RRSP is for you to build wealth for use in the future or during retirement. Given the current yield, your $150,000 today could grow by as much as 262.3% or $393,470.75 in 20 years.

Among all Canadian banks, Scotiabank boasts of the biggest international presence and global business. In Q1 2020, this $86.64 billion bank posted a 3.51% increase in net income versus last year (from $2.24 to $2.32 billion). However, there was a decline in earnings from the international division.

Scotiabank is present in the underserved markets, specifically the Pacific Alliance bloc composed of Chile, Colombia, Mexico, and Peru. Management expects earnings from the international markets to pick up in the second quarter.

## Stay within the contribution limits

The common mistake of TFSA users is over-contribution. There is a 1% tax penalty on the excess contribution, which you can easily avoid by monitoring your contribution limits. While the amount may be negligible, any tax payment in a tax-free account is ridiculous.

Let’s say your investment is in a royalty stock like **Pizza Pizza** (TSX:PZA). This $239.78 million royalty company owns and franchises quick-service restos under the Pizza Pizza and Pizza 73 brands is a dividend machine. It has a solid customer base from its 772 restaurants in the royalty pool.

The stock pays a mouth-watering dividend of 9.15%.Your $100,000 worth of shares can produce $9,150 in annual income.

When you withdraw from the TFSA, the entire amount is tax free. A costly tax can reduce your total earnings due to an oversight. The repeated advice is to be mindful of the contribution limit.



## Tax savers

The RRSP and TFSA have individual dynamics, but you gain tax savings from both accounts. Depending on your circumstances, you can use any to your advantage.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

**PARTNER-FEEDS**

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

**Category**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**Date**
2025/08/21
**Date Created**
2020/03/05
**Author**
cliew