Canada Revenue Agency: The #1 Tax Break to Use Right Now

Description

With the economy in free fall, everyone is look for a break. The recent $2,000 CERB payments have helped, but more needs to be done. Fortunately, there's one tax break that the Canada Revenue Agency has recommended for nearly a decade. It can literally save you millions of dollars.

Yet Statistics Canada believes that 60% of Canadians *don't* use it. It's mind boggling. The tax break is free to use, and has very few downsides. Even those who are using it aren't using it to its full potential.

Want to take advantage of this CRA-approved opportunity? It's surprisingly simple. Just remember: even if you're already doing this, you're probably still leaving free money on the table.

The best tax break in Canada

The best thing you can do to reduce your tax burden is to *properly* use a TFSA. Notice the emphasis. If you use these accounts incorrectly, you'll miss out on the biggest gains.

If you don't have a TFSA, like 60% of Canadians, then pay close attention. Even if you have a TFSA, brushing up on the details will ensure you don't miss a single penny in savings.

TFSAs are formally known as Tax-Free Savings Accounts. The tax break is right in the name. These accounts can permanently shield your capital from the CRA's reach. Dividends and capital gains aren't taxed as long as the money remains in the account. Even withdrawals are tax free.

Here's the best part: this tax break has almost no downside. You can make withdrawals at any time for any reason. And you're allowed to re-contribute anything you've withdrawn the following year, making this an incredibly flexible vehicle to invest with.

Let's say you invest $6,000 in a TFSA and earn a 10% annual return. After 30 years, your nest egg will be worth $105,000! Due to the tax break, you get to keep the full amount.

But what if you didn't use a TFSA, and instead invested the money in a traditional investment account?

Taxes on dividends and capital gains could reduce your final amount by more than $30,000. There's no reason *not* to use a TFSA. Just be careful to avoid a costly mistake.

Don't make this mistake

Along with the CRA, Statistics Canada tracks how Canadians use their TFSAs. One cardinal sin sticks out: investing in cash. Doing this essentially eliminates your tax advantages.

Let's take the earlier example of investing $6,000 in a TFSA. But instead of earning 10% per year in the stock market, you settle for a 1% annual return through a bank account.

After 30 years, you'll wind up with just $8,000. Your tax savings will total a few hundred dollars. By investing in the stock market, your tax savings totaled more than $30,000!

Economists like to say that there's no such thing as a free lunch. Tax breaks are the exception, especially ones like the TFSA, which has virtually no downsides.

When life hands you lemons, make lemonade. By investing in cash, you essentially hold on to the lemons. Through long-term stock market investing, you ensure that your tax advantages are as high as possible.

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