CRA: The TFSA's Power Is Underestimated

Description

Many Canadians still believe that the TFSA is only good for saving for things like trips or home renovations.

It's like saying that Excel software is good for making your grocery list. Yes, that does the job, but it minimizes the capabilities of the machine.

Those who understand the power of the TFSA have used it to invest and generate significant gains by thumbing their nose at Canada Revenue Agency (CRA), not to save a few dollars on a 1% interest account.

How the TFSA works

To profit the most from your TFSA, you need to understand how it works. Let's review the basics.

Like an RRSP, a TFSA is like a shell in which you can deposit all kinds of financial assets: cash, certificates of deposit, mutual funds, exchange-traded funds, bonds, stocks, etc.

These assets will grow tax-sheltered, like in an RRSP. This means that you can buy and sell investments inside your TFSA, without getting bothered by the taxman. Any income you earn is also tax-free.

Everyone has the same rights. They are $6,000 for 2020. When you don't use all of your TFSA rights, they accumulate year after year.

The TFSA was set up in 2009. A person who can contribute to it since the start, but who has never done so, has accrued rights of $69,500 in 2020.

You can't deduct contributions from your income, but you don't add withdrawals to your income. The money you earn in a TFSA is clear in your pockets, that's why you can't claim a deduction.

You can deposit any amount you withdraw from your TFSA back into your account the following year, in addition to the new contribution rights that the CRA adds each year.

That means returns can increase the capacity of the TFSA. For example, if you buy $2,000 worth of stocks, and you withdraw this investment after its value has doubled, the transaction creates an additional $4,000 room in your account the following year.

We should call it a tax-free investment account

Using a tax shelter like the TFSA to save a few dollars in tax, while this same shelter allows you to invest and generate breathtaking returns without paying a penny to the taxman, isn't a good strategy.

If you want to save for projects like travel and renovations, it's best to save money in an ordinary savings account, as your money needs to be in a safe place.

You should view the TFSA more like an investment account than a savings account.

Why would you want to have a TFSA that earns only 1% in interest when you can invest it in stocks that can generate way much more and never pay taxes on the gains? There's no limit to what you can earn in a TFSA.

For instance, **Shopify** is one of those stocks that's best to own inside a TFSA since this tech stock is growing very fast. Someone who has bought $5,000 worth of shares of Shopify five years ago would now have about $150,000 in their account. That's a return of 2,900% over five years!

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

POST TAG

1. Editor's Choice

PARTNER-FEEDS

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

Category

1. Investing
2. Stocks for Beginners
3. Tech Stocks

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2020/06/05
Author
sbchateauneuf