Canada Revenue Agency: 3 TFSA Tricks to Use Now

Description

The Canada Revenue Agency granted Canadians a gift when it introduced the Tax-Free Savings Account (TFSA) in 2009. Economists say that there's no such thing as a free lunch, but this is as close as you'll ever get.

According to the CRA, this account is "…a way for individuals who are 18 and older and who have a valid social insurance number to set money aside tax-free throughout their lifetime."

Once you contribute capital to a TFSA, it's possible to shield an unlimited amount of gains from taxes.

"Any amount contributed as well as any income earned in the account (for example, investment income and capital gains) is generally tax-free, even when it is withdrawn," the CRA stresses.

If you have a TFSA, congratulations. Just know that you may not be using this account to its full potential. If you want to maximize the benefits, pay attention to the three proven tricks below.

Go for growth

Many TFSA investors focus on low volatility dividend stocks. While these businesses are often perfect for retirement savers, they may not be a fit for this account.

As the CRA stresses, your gains in this account are fully protected from taxes. Whether your investment turns into $10,000 or $1 million, you'll pay nothing to the government. This is a sizable advantage — one that shouldn't be handicapped.

Consider a popular dividend stock like **Royal Bank of Canada**, which pays a 4.5% yield. Over the past five years, shares have increased in value by 20%. A growth stock like **Shopify**, meanwhile, has increased in value by 4,000% over the same period.

If you have the magic power of avoiding all capital gains taxes, be sure to use that to your maximum advantage through growth investing.

Use your TFSA lifetime maximum

There are limits to how much you can contribute to these accounts. This year, the annual contribution limit is $6,000. But in reality, you could contribute nearly $70,000 this year. How is that possible?

There's a big difference between the *annual* contribution limit and your personal *lifetime* limit.

Annual contribution room rolls forward year to year. So if you didn't use it last year, it gets added to this year's sum.

Contribution room starts to accrue when you turn 18. If you turned 18 in 2009, the year the TFSA was introduced, you'd have $69,500 as a personal lifetime limit. If you have never contributed, you could immediately put in $69,500 *today*, even though that far exceeds this year's specific annual maximum.

This account is the best deal in finance. Don't mistakenly think you can't contribute more than the stated annual max.

Don't day trade

TFSAs protect your capital from taxes for life, which makes them perfect for long-term stock picks. Plus, these types of companies have proven to be greater wealth generators than short-term winners.

The trick here is to avoid day trading. Keep a long-term focus. If you decide to day trade, the CRA may deem your investment activity a *business* transaction. This would classify you as a business, removing all of the TFSA's tax advantages.

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