



Get \$1,500 Every Year and Pay ZERO Tax to the CRA

Description

Everyone wants to pay lower taxes. However, the number one tool to pay zero taxes, the Tax-Free Savings Account (TFSA) is underused.

According to the latest [Statistics Canada data](#) I could find, the average TFSA contribution amount was \$7,502 versus \$7,139 withdrawn for 2017. The average unused TFSA contribution room was \$30,947, while the average fair market value was \$19,633.

That's \$30,947 of potential tax-free investments! On a 5% yield, Canadians can get \$1,547 of tax-free income forever. Additionally, this income can increase as well, for example, if you invest in the dividend-growth stocks introduced below.

Folks are also withdrawing from their TFSAs, which defeats the purpose of the TFSA.

While the total 2017 TFSA contribution of \$61.4 billion across Canada was something to cheer about, withdrawals of nearly half of that during the year wasn't.

Growing your TFSA to \$100,000 and beyond

The TFSA is a savings account *before* it is an investing account. Ideally, Canadians would leave their money in their TFSAs for wealth creation through long-term compounding.

Regular savings of \$500 a month will turn into \$105,187 in 10 years on an annualized 10% total return. If your investment portfolio yields 5% and you reinvest all that income along with the \$500 for the same rate of return, you'll arrive at \$183,748 in 10 years! Moreover, the portfolio will generate annual income of \$5,259.

Cases to withdraw from your TFSA

Understandably, sometimes there are emergencies that require you to quickly draw money from your

TFSA. Other times, you might have planned to grow money tax free in your TFSA to make a big purchase, such as buying a car, making a down payment for a real estate property, or going on vacation.

Where to invest for tax-free income

Interest rates are so low that it doesn't make it worthwhile to put money in GICs. If you're saving for your child's education or for retirement, you could have a long investment horizon that allows you to invest in stocks for greater income and returns.

For example, you can get a nice yield of 5.4% from **TC Energy**, 6% from **BCE**, and 5.1% from **Toronto-Dominion Bank**. They're from different sectors, giving some diversification to your investment portfolio.

By investing the same amount in each stock, you'd get an average yield of 5.5%, which is 2.6 times more income than the best five-year GIC rate of 2.1%. Moreover, with a five-year or longer investment horizon, it's highly likely that you'll get impressive price appreciation on top of the dividend income.

Notably, these three stocks are discounted right now. So, they'll probably deliver returns of more than 10% per year over the next three to five years.

The Foolish takeaway

If you're withdrawing more than you like from [your TFSA](#), try not to do that going forward, because you'd be dampening the compounding effect of your investments.

The 2020 TFSA contribution limit is \$6,000, which works out to saving \$500 a month. As noted earlier, you can turn savings of \$500 per month into more than \$180,000 in 10 years.

This scenario is based on an annualized 10% total return. If you have unused TFSA contribution room from previous years, you can invest even more for greater returns.

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