Should You Put U.S. Stocks in Your TFSA?

Description

A Tax-Free Savings Account (TFSA) is a great place to store your investments. The income you earn within the account is not subject to taxes, whether it comes from dividends or capital gains. And so, if you're a long-term investor, this can be a great way to grow your portfolio over the years without worrying about incurring taxes when you pull the money out.

As long as a stock trades on a major exchange like the TSX, NASDAQ, NYSE, you're okay to include it in your TFSA. There are many designated exchanges that you're allowed to buy stocks from to put in there, so you aren't limited to just Canadian or even North American stocks, for the matter.

But the question of whether to include U.S. stocks becomes a bit more complicated if you're collecting dividends. That's because if the U.S.-based stock pays a dividend, the IRS will apply a withholding tax on your dividend stocks that can be as much as 30%. By filling out a tax form such as W-8BEN or W-9, you can have this rate drop to 15%. However, this is still money that you won't get back, as it isn't deductible on your tax return.

So, before you get excited about a dividend stock like **AT&T** that pays more than 7%, you should remember that those payouts will look a lot smaller by the time they get to your TFSA. If you do want the dividend income in its entirety, then you're better off putting that investment into a Registered Retirement Savings Plan (RRSP). If U.S. dividend stocks distribute funds to an RRSP, no withholding taxes will be applied in those cases.

However, if you're investing in a growth stock like **Amazon** that doesn't pay dividends, that's an investment you'll probably want to put inside your TFSA. If the stock continues generating monstrous returns, you'll want to protect as much of those capital gains from the taxman as possible, and a TFSA can be ideal in that scenario. With an RRSP, you will still end up paying tax on those gains when you go to withdraw money from your account, but taxes won't apply on any withdrawals from a TFSA.

A great option for TFSA investors

If you're primarily looking for strong returns, you may want to consider investing in an ETF like **BMO NASDAQ 100 Equity Hedged to CAD Index ETF**

(TSX:ZQQ). Not only does it include a top stock like Amazon in there, but it has all of the best NASDAQ stocks, including **Apple**, **Microsoft, Facebook**, and many others. Year to date, the fund is up over 28%, which is better than the NASDAQ's returns of around 25%.

With many solid investments in the NASDAQ 100 ETF, this is an ideal buy-and-forget stock that investors can just buy and not worry about over the years. It also takes the guesswork out of trying to figure out which tech stock(s) to put in your portfolio. While you might not make as much if you were to pick a top-performing stock, the fund offers little risk over the long haul and is an attractive option for investors who don't want to have to do all the research to find out which of the top tech stocks is the best one — simply take a position in all of them through the ETF.

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Date
2025/08/23
Date Created
2020/10/30
Author
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