



Canada Revenue Agency: Buy a House Using TFSA Income of \$371,000

Description

It is important to start saving at an early age. However, savings tend to take a back seat as expenses and taxes increase and income growth slows. In such a scenario, the Canada Revenue Agency (CRA) encourages Canadians to save by offering tax breaks through the Tax-Free Savings Account (TFSA). The economy and the job market are so dynamic that people need flexibility and easy access to their funds. Keeping up with the financial needs of today's economy, the CRA [launched the TFSA back in 2009](#).

Working out the T of TFSA

If you invest \$10,000 now in your TFSA, you pay tax on this amount. Then whatever you earn from this \$10,000, be it \$50,000 or \$200, the CRA won't touch it at all. Moreover, you can withdraw this money anytime. There is no lock-in period, no restrictions on how much you can withdraw but there is a restriction on how much you can contribute. For 2019 and 2020, the CRA set the annual TFSA contribution limit at \$6,000.

To open a TFSA, you need to be 18 years old and Canadian. You may or may not have an income. Your parents can give you the money to put in TFSA. The way TFSA works, it has attracted the younger generation to the benefits of saving.

Many Canadians have started saving early in life. They are using TFSA to build up savings to buy a car. Some are building up a TFSA pool to earn passive income so that they can retire early and pursue their dreams. Some are planning a family, and what better way to save for a house than a TFSA?

The fact that you can have a lump sum amount on which the CRA can't lay its claws makes savings easier. All you need to do is decide on how much money you want and when, and invest accordingly.

Pay tax on \$10,000 and get \$110,000 income tax-free

You can leverage the TFSA to buy high-growth stocks that can convert \$100 into \$10,000. The last

decade saw the rise of cloud services. Even the traditional on-premises software companies moved to the cloud. **Descartes Systems** ([TSX:DSG](#))([NASDAQ:DSGX](#)) was among the early adopters of cloud technology. I won't call it a super-high growth stock because, in the last 10 years, it surged as much as 60% in just three years. For the remaining seven years, the stock surged between 3% and 25%.

Rising at a [compound annual growth rate \(CAGR of 25%\)](#) Descartes's stock converted \$10,000 into \$120,000 between January 2010 and November 2020. And the best part is, this is just a one-time investment and a one-time tax on \$10,000. This \$110,000 you earned in investment income is free of tax.

Use a TFSA to earn passive income

If you invested \$5,000 each year in Descartes for the last 10 years, you would have more than \$370,000 in your TFSA. You can withdraw this entire amount and buy a house in the current crisis.

For instance, Jane started investing early in life. In 2009, she was 18 years of age and worked part-time and also attended college. She put \$100 a week in his savings, which converted to \$5,200 a year. Jane learned about TFSA, and since then, she has put \$5,000 every year in a stock that grew at a CAGR of 25%.

Today, Jane is 30 years old, and when she checked her TFSA, she had \$371,000. She seizes this opportunity and buys a house, reducing her monthly expenses by \$2,400 as she no longer pays the rent.

Jane realizes the benefits of compounding and invests rental savings for that month in **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). The stock is Dividend Aristocrat that has maintained its image of giving incremental dividends for the last 25 years.

The pandemic has pulled Enbridge's stock down more than 30% and inflated its dividend yield to 8.3%. Jane grabs this opportunity and locks the high dividend yield. Enbridge will pay \$200 in annual dividend on his \$2,400 investment. This annual dividend income could grow to \$430 by 2030 and to \$900 by 2040. With just a one-time investment of \$2,400, Jane earns a total of \$10,000 in dividend income in 20 years.

CATEGORY

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2. Energy Stocks
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TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:DSG (The Descartes Systems Group Inc)
4. TSX:ENB (Enbridge Inc.)

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