



Canada Revenue Agency: How TFSA Users Can Turn Their Next \$6,000 Contribution Into \$18,000

Description

The TFSA (Tax-Free Savings Account) is a powerful tool you can use to shield your gains from the Canada Revenue Agency. The powers of long-term tax-free compounding are profound, yet many Canadians aren't leveraging the full power of the TFSA.

The COVID-19 crisis, which has made the stock market a roller-coaster ride, has left many Canadians hoarding excessive amounts in savings. In a near-zero interest rate environment, such TFSA savers would be shielding nearly *negligible* amounts of interest from the Canada Revenue Agency instead of meaningful investment income (or gains) that would have been possible through more rewarding, albeit "riskier" securities, most notably stocks and REITs.

The Canada Revenue Agency won't tax your TFSA

Stocks, while on the more [expensive](#) side after the big rally out of those ominous March depths, seem to be the only game in town these days. And while prospective returns for all assets may be on the lower end, I'd argue that bonds and "risk-free" fixed-income securities are actually "riskier" than "risky" assets like stocks and REITs when you factor upside risks, opportunity costs, and the threat of a potentially unchecked rise in the rate of inflation.

Even if cash and cash equivalents are terrible to hold, one should always have "just enough" on the sidelines, so they're not put into a personal liquidity crisis in the event of another cash crunch. That means having enough of an emergency fund and "just enough" to buy market crashes that come from out of nowhere. Any excessive amounts that collect dust in TFSAs, though, I believe, are not worth shielding from Canada Revenue Agency taxes.

With the TFSA, the Canada Revenue Agency provides you with a means to shield potentially outsized capital gains from winning tech stocks, big investment income from high-yielding REITs, or a mere 0.35% in interest from savings. By using your TFSA to shield taxes from the latter, you're leaving a tonne on the table.

Thus, you should seek to go on the hunt for gains and meaningful income, rather than settling for the sub-1% interest that you'll get some savings, short-duration bonds, or Guaranteed Investment Certificates (GICs), all of which are the most unrewarding they've been in recent memory and will not allow you to punch your ticket to a rich retirement.

Canada Revenue Agency: Don't be afraid to invest with your TFSA

If you seek to [double](#) or triple your next TFSA contribution (the 2021 TFSA contribution is currently set to be \$6,000) to \$12,000 or \$18,000 over the next two decades, you've got to shed your fear of common stock. You don't need to speculate on dangerously volatile tech stocks or cryptocurrencies to double or triple your TFSA wealth over the long term.

For conservative investors, you can look to one-stop-shop ETFs such as **BMO Covered Call Utilities ETF (TSX:ZWU)**, which currently sports a massive 7.8% yield at the time of writing.

The ETF's covered call strategy trades off upside potential for premium income generated from the writing of options on the ETF's long holdings (comprised of high-quality Canadian utility stocks). In essence, the ZWU trades off upside potential to get an enhanced yield, which can act to "dampen" volatility faced by the ETF's constituents. Shares of the ZWU itself are prone to wild swings, but the sizeable amount of income generated provides an incentive to hold on.

So, instead of saving and running the risk of losing your purchasing power through the insidious effects of inflation over the long run, look to names like the ZWU, which is capable of generating ample amounts of passive income in your TFSA that will be free from taxation from the Canada Revenue Agency.

Foolish takeaway for overly conservative TFSA users

While such a specialty-income ETF like the ZWU may not be the best option to grow your TFSA wealth, it is a compelling option for overly conservative TFSA savers looking to dip a toe into the equity markets. On a total-return basis, the ZWU blows savings and bonds right out of the water and can easily allow you to make better use of your next \$6,000 TFSA contribution.

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TICKERS GLOBAL

1. TSX:ZWU (Bmo Covered Call Utilities ETF)

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