TFSA: How Ordinary Canadians Sheltered $298 Billion From CRA Taxes

Description

Thanks to the TFSA, ordinary Canadians have managed to protect $298 billion in assets from the Canada Revenue Agency (CRA).

That's according to a recent *Financial Post* article by Jamie Golumbek — a **CIBC** executive — that reviewed a slew of new data from the CRA. Golumbek revealed these tidbits:

- There are currently 20,779,500 TFSAs in Canada.
- They are held by 14,691,000 unique account holders.
- Their average account value was $20,300.
- The average TFSA holder contributed $7,811 in 2018 — more than that year's $5,500 in additional space.

These are fascinating statistics. They go to show that Canadians are actively using their TFSAs and contributing their fair share. That's interesting enough already. But what's really interesting is the amount of taxes they could be saving.

Tax savings at $298 billion

To understand how much money Canadians could be saving in their TFSAs on aggregate, we need to look at the amount they have invested.

Thanks to the CRA's data dump and Golumbek's article, we know the total is $298 billion. Here are a few possible returns that money could produce:

- $8.9 million in dividends at a 3% weighted average yield.
- A $29.8 billion 10% capital gain.

To estimate the *actual* tax savings on all of this is impossible. Not all Canadians have the same yields on their portfolio, nor do they have the same tax rates, nor do they realize the same capital gains — assuming they're even selling at all. But we know this:

- Outside the TFSA, these Canadians would pay taxes on dividends and capital gains.
- Inside the TFSA, they pay none.

Given that the 3% yield I used in the hypothetical above is fairly conservative (for Canadian stocks), it's not unreasonable to think that Canada's TFSAs are collectively getting $5-$9 billion a year in dividends. At $9 billion and a 20% tax rate on non-TFSA dividends, that would be $1.8 billion in nation-wide tax savings.

A quick way to get your piece of the pie

If you want to get in on the TFSA tax-savings bonanza, you'd be wise to start soon. The earlier you start, the more tax-free compounding you'll enjoy. But it's not as easy as just opening an account. To make the most of your TFSA, you need to hold taxable investments. Otherwise, the account is going to waste.

If you're new to investing, you could consider an index fund like **iShares S&P/TSX 60 Index Fund** (TSX:XIU). It's a very popular fund operated by **BlackRock,** the world's most popular ETF company. XIU sports a 2.9% yield, significant diversification, and a mere 0.18% fee. The fee is small enough that you'll barely notice it, and you get enough of a yield that if you invest $500,000, you're getting a $14,500 income supplement each year. With funds like XIU, you have built-in diversification, which reduces risk, making them among the safest ways to get started in investing.

If you want to get your yield a little higher, you could consider utility stocks like **Fortis** (TSX:FTS)(NYSE:FTS). Utilities are among the safest individual stocks you can own, because their businesses are protected and regulated by the government. Normally, investors are advised to invest in funds, but a blue-chip utility like Fortis should perform without too much fuss. In the meantime, it will pay a 4% dividend yield that you can collect tax-free in a TFSA. Talk about a sweet deal!

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Date
2025/08/13
Date Created
2021/01/18
Author
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