TFSA Money – How to Grow Your Wealth with Tax Free Stocks

Description

The Tax-Free Savings Account (TFSA) is one of the best investing tools that Canadians have at their disposal. Providing the ability to hold stocks and bonds tax-free, it can save you a lot of money. To put it in perspective, your total return on an investment is on an after-tax basis. If you pay a 30% tax on a 100% return, you only get a 70% return. But if you book a 100% return in a tax-free account, you collect the full 100%. Let's explore how you can grow your wealth with tax-free TFSA stocks.

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Step 1 – open a TFSA

The first step to investing in a TFSA is opening an account. To do this, go to your bank and ask for an appointment with a financial advisor. You'll then have a meeting with your advisor who will set you up with a TFSA. If you plan to manage your own investments, remember to ask for a self-directed TFSA. Bank advisors are incentivized to sell the bank's own funds, and as a result, they tend to push you into pre-invested TFSAs by default.

Step 2 – know which kinds of investments are best for a TFSA

Once you've opened your TFSA, you need to decide what to hold in it. In general, TFSAs are most suited to investments that will become taxable in the near future. That includes:

1. Bonds
2. Dividend paying stocks
3. Stocks that you plan to hold for only a short period of time

Bonds and dividend stocks both produce regular cash flows that become taxable as soon as they're paid. Even if you automatically reinvest your dividends, you have to pay taxes on them. So, income producing investments tend to be a good fit for TFSAs. If you own both bonds and dividend stocks, bonds take priority, because they're taxed more than dividend stocks are.

It's a similar concept with stocks that you plan to hold for a short period of time. If you're into stocks like **Shopify Inc.**

(TSX:SHOP)(NYSE:SHOP), you may have a relatively short holding period in mind. Shopify stock has, at times, risen many thousands of percentage points. When you get a gain like that, you might want to cash it out and treat yourself to some luxuries. If your plan is to buy SHOP or another growth stock and sell it within the next year or two, you might want to hold it in a TFSA. Similar to a dividend stock or bond, the return on a very short-term trade will be taxable.

Apart from a short-term scenario, technology stocks like Shopify are not usually ideal for TFSAs. If you plan to buy Shopify and hold it forever, you may never pay taxes on it. You don't pay taxes on capital gains until you sell. Therefore, holding a stock like SHOP forever in a taxable account will leave more space for dividends and interest in your TFSA.

Step 3 – Contribute consistently over time

The third and final step to earning tax-free wealth in your TFSA is to contribute consistently over time. TFSAs gain a little bit of space every year, so you can always contribute a little more with the start of each new year. The more you invest, the greater your total return, so make sure you're contributing to your TFSA regularly.

CATEGORY

1. Investing

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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
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3. Koyfin
4. Msn
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