

Top 10 TFSA Tips

With the introduction of the Tax-Free Savings Account (TFSA), Canadians now have more options than ever before to help them save money and reduce taxes. Below are the Top 10 TFSA Tips you should know:

1. Use your tax-refund wisely. Use the tax refund from your RRSP contributions to invest in your TFSA for an optimal combination of growth and flexibility.
2. If you have used-up all of your RRSP contribution room and are looking for additional investments, ensure you use-up all of your TFSA contribution room prior to investing in non-registered accounts.
3. Resist the temptation to dip into your TFSA. The TFSA offers more flexibility than RRSPs and therefore there are fewer barriers to discourage an individual from accessing the money. Remember, the longer your investments sit uninterrupted, the longer you may benefit from the positive effects of tax-free compound growth. Discipline and a clear objective are essential when investing within a TFSA.
4. Procrastination can be costly, so make your TFSA contribution early in the year. The sooner you put your money into a TFSA, the sooner you stand to benefit from the effects of tax-free compound growth. If you can't do it all in January, monthly contributions can also be effective.
5. Ideally, you should use your full allowable contribution room each year. But if you don't, you will accumulate unused TFSA contribution room that can be used at a later date. When possible and if it fits your financial strategy, strive to maximize your TFSA contributions.
6. Investing in a TFSA during your accumulation years could help reduce claw-backs on income-tested benefits such as Old-Age Security and Age Credits when it comes time to withdraw retirement funds. Because returns on investment within a TFSA are non-taxable, they will not be included as part of your net income, potentially saving you money over time.
7. Unlike RRSPs, there is no age limit on making contributions to a TFSA. In fact, you can contribute well into your retirement years, helping you save for short-term goals like that dream vacation, a new car or even home renovations. The income generated from investments in your TFSA is tax-free, therefore it will not affect your federal income-tested benefits such as OAS or Age Credits.
8. If you anticipate that your marginal tax rate will increase at a later date, you may benefit by saving through your TFSA rather than making additional RRSP contributions. That's because the tax reduction that your RRSP contribution may generate now may be less than the tax reduction it could generate later on.
9. Make a contribution for your spouse or common-law partner. You can contribute to a partner's TFSA without affecting your own contribution room. Income attribution rules which govern RRSPs do not apply. This can effectively double your family's TFSA annual contributions if one partner cannot afford to make such an investment.
10. Get expert help. In most cases, the TFSA is an investment vehicle that should compliment your current retirement strategy, not be the primary focus. To find out what's the best strategy for you contact an Investors Group Consultant.



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