SHAH FINANCIAL PLANNING INC.

Keeping You Informed on Tax & Investments

Greetings!

Importance of a Tax-Free Savings Account (TFSA)

Life is so busy that sometimes we forget to plan for the future. A tax-free savings account (TFSA) is a good tool to do that. However, there are four mistakes that investors should avoid.

Mistake 1: Not contributing to them
Many people end up not contributing to it because there are other obligations. After paying for your needs, do yourself a favour and pay yourself first.
An easy way to pay yourself first is to contribute set amounts to a TFSA periodically. Making the contribution aligned with your pay period makes the most amount of sense as the amount will come out as soon as your paycheque hits your bank account. Make paying yourself a need instead of a want.

Mistake 2: Not maximizing returns
Some people have opened TFSA accounts only to let it sit there or to earn interest from a high interest savings account or GIC. It's true that earned interest is tax free in a TFSA, but historically in the long term, investing in quality mutual funds generates much better returns than any interest-paying account or GIC. For better tax free returns, it makes more sense to invest in mutual funds which historically have produced better gains.

Mistake 3: Taking on too much risk
Just as gains aren't taxed in your TFSA, there's no way to write off your losses as well. Which is why you should meet with your financial advisor to see assess your time horizon and risk tolerance in order to build an efficient portfolio to maximize the returns using mutual funds.

Mistake 4: Withdrawing from a TFSA when you're not supposed to
Have a goal in mind before investing in a TFSA. Are you saving for a big purchase? If you withdraw from a TFSA, you're giving up the opportunity to compound tax free. That is huge impact on TFSA growth, especially over a long period of time. If you have no more room left for the year, the amount that you withdraw cannot be contributed back into a TFSA until the next calendar year.
In conclusion

Investing in a TFSA is a great way to get ahead. The current limit for 2016 is $5,500. However, if you have never contributed into a TFSA, you can contribute upto $46,500.

We are at your service. If you require further information/assistance, please do not hesitate to contact your financial advisor at Shah Financial Planning Inc.

Head Office Hours

Monday to Friday ► 9:00 am to 5:00 pm
Thursday by Appt. ► 5:00 pm to 6:00 pm
February to April ► Saturdays ► 11:00 am to 5:00 pm

No Inner Peace Without Financial Security

www.ShahFinancial.ca