# Investors: Are You Making These 3 TFSA Mistakes?

## Description

Tax-Free Savings Accounts (TFSAs) are the best thing to happen to Canadian savers since the days of GICs paying 15% a year.



The ability to invest $5,000 per year in a truly tax sheltered account is incredibly powerful. An investor who starts today with just $5,000 and tops up their TFSA every year for 30 years would end up with $662,042, assuming an 8% return.

Combine that with retirement programs such as CPP or OAS and smart decisions during an investor's working years, and we're most of the way towards a middle-class retirement.

There's just one problem. TFSAs come with a bunch of rules. Most are pretty simple, but some are complex enough that they even trip up financial pros.

Here are three common TFSA mistakes. Avoid them and you will become richer.

**Don't over-contribute**

The TFSA has been in place since 2009. Assuming you turned 18 on or before that year, here's how much you can contribute:

| Year | Limit |
|---|---|
| 2009 | $5,000 |
| 2010 | $5,000 |
| 2011 | $5,000 |
| 2012 | $5,000 |
| 2013 | $5,500 |
| 2014 | $5,500 |
| 2015 | $10,000 |
| 2016 | $5,500 |

| | |
|---|---|
| 2017 | $5,500 |
| **Total** | **$52,000** |

If an investor has missed contribution room over the years, they can top up their account, but only up to the $52,000 maximum. Also, keep in mind if you've maxed out your TFSA, you can't withdraw cash and then put it back in the same year. You'll have to wait until January 1 of the next year or face a penalty for over-contributions.

Fees for over-contributions can be harsh. They start at 1% per month on the highest excess TFSA amount. Some people have had success getting fees waived after convincing the government it was an accident, but do you really want to take that chance?



**TFSA as a savings account**

The stats are in, and they're alarming. Too many folks — especially millennials–have their TFSAs sitting in cash or near-cash investments. You're never going to get rich earning 1.5% from a so-called "high interest" savings account.

Part of this is because of bank marketing. Industry insiders know millennials are good savers who don't want to lose the money they've diligently saved. Who can blame them? The stock market is a scary place.

But it doesn't have to be. Investors can use ETFs to gain instant diversification at a low price. Or they can focus on stable stocks that aren't subject to the same kinds of gyrations as the rest of the market.

Take **Telus Corporation** (TSX:T)(NYSE:TU) as an example. The company has an easy-to-understand business, a solid dividend yield of 4.4%, and, perhaps most importantly, it has a beta of 0.47. That means it's less than half as volatile as the stock market as a whole. It's the perfect stock for somebody who's nervous about losing all their money in the market.

**Avoid U.S. dividend stocks**

Canadian dividend stocks are great choices for a TFSA, even if the experts say bonds and other interest-bearing securities are better. Total return matters more than tax savings.

One asset class to never put in your TFSA is U.S. dividend-paying stocks. TFSA holders have to pay a 15% withholding tax on those dividends, which immediately impacts their income. The same thing affects investors who hold U.S. dividend payers in a non-registered account, but those investors will get a corresponding tax credit to make up for it.

So if you're looking to buy **General Motors Company** (NYSE:GM) shares because of the 4.3% yield, it's rock-bottom valuation, or its future in self-driving cars, do so in your RRSP, not your TFSA.

**The bottom line**

As long as investors follow the rules, TFSAs can be an incredibly powerful way to build wealth. And nothing beats avoiding taxes. Use these tips to make sure you're making your TFSA the best it can possibly be.

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