2 Mistakes to Avoid in Your TFSA

### Description

The Tax-Free Savings Account (TFSA) was introduced primarily to encourage individuals to save for retirement. It's a noble money-making mechanism that does not involve paying taxes on your own savings. The only penalty is when you over contribute. That's a magnanimous deal.

A TFSA is where you can build wealth as you look forward to the sunset years. The earlier you take advantage, the bigger your fortune will be at the appropriate time. However, there's a proper way to manage a TFSA, so it can serve the very purpose it was created for. And the saver should avoid two common mistakes.



## Ultra-conservative

The nicest thing about the TFSA is that the holder has the liberty to fill it with investment instruments. Since it's basically a basket of financial goodies, you can put in bonds, guaranteed investment certificates, a savings account, and stocks. When any of the instruments produce gains, all gains are non-taxable.

Clearly, the TFSA is an investment account. When you're saving up for retirement, the bigger the gains, the faster money will grow. Thus, it's a mistake if you treat it as a regular savings account. There's not much to gain when funds are idle. You need to look for other investment options that can deliver higher returns.

Don't be too risk averse and take some risks. For example, the big Canadian banks are safe investments and pay higher dividends. However, price appreciation is not as strong as other financial stocks, like **Equitable Group** (TSX:EQB). This stock can be included in your TFSA.

This $1 billion mortgage lender to retail and commercial clients is fast emerging as a promising dividend-growth stock. The specialty lending firm was able to raise dividends in three consecutive quarters. Although the current yield of 1.66% isn't at par with the bigger banks, the price has better potential upside.

Analysts have forecasted the going price of $65.87 to increase by 42.7% to $94. Projections for the bigger banks won't be as high. The payout ratio of 11.17% is a good sign of sustained dividend payments.

## Preference for foreign dividend stocks

Sometimes, TFSA account holders think holding foreign or U.S. dividend stocks are better. While it can be included in your TFSA, there are tax implications. There is a 15% withholding tax for U.S. dividends, which will affect your net gain. It's better to keep your holdings to Canadian stocks.

To illustrate, Calgary-based **Inter Pipeline** (TSX:IPL) is a publicly listed company on the TSX. This $8.4 billion integrated energy infrastructure company is one of the highest-paying dividend stocks. The 8.4% dividend yield is a generous return.

Assuming you buy a U.S. stock with the equivalent price of $20.70 and pays the same yield, your net gain will be smaller after being meted the 15% withholding tax. It doesn't make sense to be burdened by taxes since "TF" stands for tax-free. IPL operates world-scale energy infrastructure assets and is therefore a great buy.



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