3 Hidden TFSA Traps to Avoid Like the Plague

Description

To get the most out of your TFSA, you have to understand it fully. While your TFSA might seem fairly straightforward, many hidden traps can trip up investors.

Here are three of these mistakes and how to avoid them:

Trap #1: Naming your spouse as a beneficiary instead of successor holder

If you're planning on transferring your TFSA to your spouse or common-law partner after you pass away, make sure you designate them as a successor holder, and not as a beneficiary.

Without going into too much detail here, if you designate them as a beneficiary, it is a more complicated process, and the account may not pass entirely to them tax-free. However, if you select them as a successor holder, it will be passed tax-free without any complications. It's important to distinguish between the two.

Trap #2: Withdrawing your TFSA before transferring to another financial institution

If you are unhappy with the company your TFSA is currently held in and want to move to a new one, be extremely cautious. If you withdraw your investment to cash before transferring over to the new company, you run a very high risk of overcontributing and incurring significant penalties.

The risk is because if you withdraw your investments, the contribution room is not available until the following year. Transfer in kind instead to avoid this problem, since that won't be considered a withdrawal anymore.

Trap #3: Not knowing how gains and losses in portfolio impacts contribution room

A common mistake is not knowing what happens to your contribution room when your portfolio loses or gains. The short answer is, nothing happens. Whether the value of your investments rises or falls, you still have the same contribution room available.

Where many people get confused is, for example, you have a stock, and it falls in value. This does not mean that you can contribute that amount that you lost; it means that that contribution room is lost forever and you can't contribute anymore.

In an extreme example, if you have a maxed-out TFSA and all of your investments drop to zero, you won't be able to contribute any more to your TFSA.

Hopefully, you will be able to avoid these enormous losses by investing in stocks such as **Telus** (TSX:T)(NYSE:TU). As one of Canada's top 30 TSX stocks, Telus leads the telecom sector with the largest and most reliable network. A company in strong financial standing, Telus carries a strong balance sheet and was rewarded with an investment-grade rating. The rating provides the company with access to cheap debt to fund additional projects.

Telus has healthy shareholder returns, with the company returning over $1.2 billion to shareholders in 2018. Its current dividend yield sits at a very healthy 4.7%, which should please current investors in the stock.

Looking towards tomorrow, Telus is primed to be a future leader in telecom also. Telus has already spent $175 billion since 2000 for investments in new technologies. This considerable budget should help pave the way for continued market dominance for years to come.

Conclusion

Penalties can take a toll on how much your TFSA can grow over the years. Make sure you're not making any of these three mistakes that we covered, and you're well on your way to a comfortable retirement.

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