Statistics Canada: You May Be Making a $27,652 TFSA Mistake!

Description

Tax-Free Savings Accounts (TFSAs) are a Canadian investor's best friend. Offering the ability to grow investments *and* withdraw funds tax-free, they're the most flexible tax-saving accounts available.

If you use them wisely, that is.

While it's possible to enjoy huge tax-savings in a TFSA, there's a good chance you're not. That's because of a major mistake you're likely making, revealed in a recent Statistics Canada report — a mistake that could cost you thousands of dollars over the course of your investing career. This mistake is easy enough to correct, but the longer you put it off, the more savings you'll miss out on.

I'll reveal that mistake in just a minute. Before getting into it, let's take a look at the eye-opening number Stats Can released last year.

The average Canadian TFSA user had $27,652 in unused contribution room in 2016

In its 2018 TFSA report, Stats Can revealed that the average Canadian had $27,652.72 in unused contribution room in 2016. That's almost half the amount you can contribute this year, and well over half of what you could deposit that year. Although TFSA contribution room is cumulative, the longer you put off your deposit, the fewer years of tax-free compounding you can enjoy.

In fact, having $27,652 in unused space could cost you quite a bit in the span of a single year.

Consider the case of a TFSA holder with all of his or her holdings in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). TD yields about 4%, so with a fully maxed out $63,500 TFSA, you could earn about $2,540 in dividends a year on that stock.

Inside a TFSA, every penny of that is tax-free. If you're $27,652 short of the maximum, you're missing out on $1,106 of that $2,540 total.

Of course, this assumes that your entire portfolio has a 4% yield. Most likely, you have financial constraints that limit your ability to deposit and own a diversified portfolio with various yields. Your mileage may vary. However, it goes to show how much tax-free income you *could* be leaving on the table by not investing all you can in your TFSA.

Over the life of your portfolio, that's a *lot* of savings you could be missing out on

Missing out on $1,106 worth of tax-free dividends a year may not sound like much. Over the span of your life, however, it can add up to quite a bit.

Over 30 years, that's about $33,180 worth of tax-free dividends you're missing out on — assuming you're not getting any dividend growth. And, in fact, many stocks do see long-term dividend growth. TD, for example, has been increasing its payout by about 10% a year on average over the past five years. With a fast-growing U.S. retail business, the company has the earnings growth needed to power increased payouts for the foreseeable future.

Of course, dividend increases may be suspended during recessions or other financially trying times. In TD's case, a major U.S. banking crisis could put the payout in serious jeopardy. However, over the long run, with a diversified basket of quality stocks, you can get quite a bit of dividend income over the long run — all of it tax-free inside a TFSA. If that's not a good reason to max out your contributions, I don't know what is.

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