WARNING: TFSA Investors Keep Making These Costly Mistakes

Description

More Canadians than ever are using a Tax-Free Savings Account, commonly referred to as a TFSA. That's great news. When it comes to getting free money, a TFSA is as close as it comes.

With a TFSA, you can protect your capital gains and dividends from taxes, which could otherwise reduce the value of your nest egg by as much as one-third.

In order to get these benefits, of course, you need to actually *have* a TFSA. While numbers have been on the uptrend, 43% of Canadians still don't have a TFSA. That's the biggest mistake you can make. But even if you already have a TFSA, you may still be leaving money on the table by committing some classic mistakes.

The biggest TFSA mistakes aren't rocket science, and you don't need to be a genius to avoid them. All you need is a bit of awareness and diligence.

Still, make sure you correct these errors, as over several decades, they can ultimately increase the value of your portfolio by thousands or even millions of dollars.

Wasting contribution room

The vast majority of Canadians fail to meet the annual TFSA contribution max, which stands at $6,000 for 2019. This is a huge mistake if you're financially able to do so.

If you simply don't have the income to stash away $6,000 every year, don't sweat it. Stick with a saving schedule that works for you. But you'd be surprised at how many Canadians can afford to put more into their TFSAs.

For example, how much do you have in your bank account right now? What about in other non-retirement investment accounts? Any excess money, even an emergency savings fund, should be put into a TFSA if you have the contribution space for two reasons.

First, you can withdraw money from a TFSA at any time for any reason. Therefore, you get the tax benefits without losing any of the flexibility.

Second, any withdrawals add new contribution room to your account. If you withdraw $1,000 from your TFSA, your contribution room increases by $1,000. As unused contribution room rolls over year after year, you have nothing to lose by contributing more to your TFSA this year, even if it’s a temporary deposit.

Wasting time

Unused contribution room rolls over, so in reality, you never lose the ability to contribute the lifetime maximum. If you add each year’s contribution room since the founding of the TFSA, the result is $63,500. No matter when you opened your account, you’re immediately eligible to contribute this amount.

But just because this contribution room rolls over doesn’t mean you shouldn’t take advantage of it today. The *time value of money* is simply too high.

Let’s say you invest $200 per month earning 8% annually. After 20 years, you’d have around $115,000, yet your cash contributions only totaled $48,000, which means the time value of that money equalled $67,000.

Just remember: if you wait to invest, the time value decreases exponentially. Even small contributions today can grow considerably given enough years invested.

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