Canada Revenue Agency: This Mistake Can Cost Your TFSA Big in 2020!

Description

In recent weeks I've discussed some important tips to keep in mind when it comes to avoiding mistakes in registered accounts. When it comes to the Tax-Free Savings Account (TFSA), which has emerged as the favoured registered account among Canadians over the past decade, I'd pointed out why investors need to watch out for over contributions.

Today I want to discuss another mistake we need to watch out for when it comes to TFSAs.

Watch out for withdrawals and contributions!

When we head into 2020, the maximum cumulative contribution room on a TFSA will rise to $69,500. Of course, that will only apply to investors who were above the age limit to contribute when the TFSA was launched on January 1, 2009.

Many Canadians have developed a habit of using their TFSA solely as a savings account. This is unfortunate, as the TFSA offers fantastic benefits for investors who enter the market.

Even a conservative portfolio will have accrued attractive tax-free gains over the past decade. Interest rates are still hovering around historic lows, so GICs and high-interest savings accounts typically fail to keep up with inflation.

Some investors opt for a middle-ground approach, using their TFSA as an investment vehicle and as a savings account. This can be risky when investors lose track of their withdrawals and contributions.

Not only can it lead to overcontributions, which I'd discussed in the article linked above, but it can also hamstring the liquidity you may want in the TFSA.

For example, in the final quarter of the 2018 calendar year, North American stocks suffered sharp declines. Investors with ample cash in their TFSAs were able to take advantage of these discounts and have reaped the rewards, as the **TSX** has soared to a record high in 2019. Investors who withdrew in the same calendar year will not have the room to contribute it back until the next year.

One stock to seek out today

When it comes to the sharp drop in late 2018, there is one top Canadian stock that comes to mind. **Shopify** (TSX:SHOP)(NYSE:SHOP) has been one of the biggest success stories in the North American tech sector since its 2015 IPO, let alone the TSX. The stock has achieved stunning average annual returns of 105% over the past three years.

It seems like ancient history in the wake of its run in 2019, but Shopify fell to a 52-week low of $160.02 in December of 2018. Shares have soared 202% since this low was reached as of early afternoon trading on December 11. Just a $5,000 investment in Shopify would have netted an investor over $10,000 in tax-free gains in his or her TFSA.

If the investor in question was hamstrung by withdrawals that happened over that calendar year, they would have missed out on spectacular gains that could be had by buying on the dip late in 2018.

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