TFSA Investors: 3 Savvy Moves to Make in 2020

Description

A new year is here, and with it, a new opportunity to top up your TFSA.

In 2020, investors 18 years of age or older are receiving an additional $6,000 worth of TFSA contribution room.

If your TFSA was maxed out last year, that means you now have $6,000 worth of space you can use. If your TFSA isn't maxed out, then your available contribution room is getting $6,000 larger. Either way, you've got an extra $6,000 in tax-free space to play around with.

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But before you run out and start stashing money into your TFSA, it would be a good idea to have a game plan in mind – a specific set of actions that will help you make the most of the TFSA space you have available. As you're about to see, there are right and wrong investments to hold in your TFSA. Making the right ones is the key to getting the most out of your money. First, though, let's get the basics out of the way.

Use your new contribution room

The sooner you get your TFSA maxed out, the more total years of tax-free growth you can enjoy. So it pays to get your TFSA maxed out as early as possible – while taking care not to ignore your daily expenses. TFSA space never goes away, but the longer you wait to make a deposit, the fewer years of growth you'll enjoy. So if you're still not sure about when to deposit your next $6,000 into your TFSA, the answer is ASAP.

Aim for Canadian dividends

If you're going to be holding dividend stocks in your TFSA, aim for stocks in Canadian companies. Despite having "Tax-Free" in the name, TFSAs don't spare you from U.S. withholding taxes. The IRS takes a 15% cut on all U.S. dividends paid to Canadian investors, and they don't recognize TFSAs.

If you hold a Canadian dividend stock like **Enbridge Inc** (TSX:ENB)(NYSE:ENB) in your TFSA, you'll pay no taxes on the dividends whatsoever. That's a pretty big deal considering the stock yields 6% and can generate thousands a year in dividends alone – even with the TFSA's relatively small contribution limit.

On the other hand, if you hold an American dividend stock like **Bank of America**, you'll have to pay 15% tax. That would be $150 on every $1,000 worth of dividends received. Clearly, Canadian dividend stocks get better treatment inside a TFSA than American dividend stocks do. This doesn't mean that Canadian dividend stocks are always better than U.S. dividend stocks, but the different tax treatment could be a tie-breaker if all else is equal.

Don't forget the RRSP

It might seem strange to mention RRSPs in an article about TFSAs. However, the two accounts are similar in many respects, not the least of which being that they both offer tax advantages. No, RRSPs don't let you withdraw tax-free like TFSAs do, but they do spare you have to pay taxes for a long time – potentially until age 71. So if you're a TFSA investor who has maxed out on contributions, your RRSP could be a good back-up account.

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In fact, the RRSP has many advantages that TFSA investors could benefit from. One of those is a lack of U.S. withholding taxes. The IRS actually recognizes the tax-deferred status of RRSPs, and spares them withholding taxes accordingly. So, by investing in an RRSP, you could hold a U.S. stock with a yield comparable to that of Enbridge, and collect all the dividends in your account. Just one reason among many to have an RRSP in addition to your trusty TFSA.

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1. Dividend Stocks
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1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

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