Canada Revenue Agency: Avoid This Mistake That Impacts 80% of TFSA Holders

Description

According to data from the Canada Revenue Agency, just one in five Tax-Free Savings Account (TFSA) holders have maxed out their contributions in 2019. This figure is really low, especially given the flexibility and benefits for TFSA holders.

The 80% figure is consistent across the income curve. For example, around 20% of Canadians earning between $20,000 and $25,000 a year have hit TFSA contribution limits, the same percentage as those earning between $80,000 and $90,000 annually.

One would like to believe that individuals with higher disposable income would regularly contribute more towards their TFSA, but this is not the case. The maximum contribution limit available for eligible TFSA holders is $69,500, while the standalone contribution limit for 2020 is $6,000.

There are other investment vehicles available to park your funds, but TFSA provides tax-free withdrawals for account holders. TFSA also provides flexibility in terms of deposits and withdrawals.

For example, in case you maxed out your total TFSA contribution of $63,500 at the start of 2019 and withdrew around $20,000 from this account in mid-2019, you can now contribute $26,000 to your TFSA in 2020.

Invest in dividend-paying stocks such as Fortis

As TFSAs provide tax-free withdrawals, you need to allocate funds to investments that can generate maximum returns. Equity investments are traditionally high growth, though they carry a certain amount of risk.

Equities have created considerable wealth over the years and are one of the most popular investments. For your TFSA investors with a high-risk appetite can consider growth stocks such as **Shopify, Lightspeed,** and others.

For the more traditional risk-averse investors, it will be prudent to consider large-cap companies with stable cash flows, strong fundamentals, and tasty dividend yields.

One such company that ticks most of these boxes is **Fortis** (TSX:FTS)(NYSE:FTS), a Canada-based electric gas and utility holding company.

With the markets trading close to record highs and economic uncertainty looming large, investing in defensive utility stocks is considered a safe bet. Fortis is part of an industry that's largely unaffected by recessions and slumps.

It's part of a heavily regulated industry, which means high entry barriers and low competition. Over 99% of Fortis assets are regulated, which almost guarantees a stable stream of revenue and predictable cash flows.

Fortis is a domestic giant with a market cap of $26.8 billion and an enterprise value of $52.3 billion. It ended the September quarter with a debt of $24 billion. However, with operating cash flows of $2.57 billion, Fortis has the required reserves to make interest payments.

Fortis stock has a forward dividend yield of 3.3%, which means if you invested $10,000 in this stock, you'd receive annual dividends of $330. Fortis has a payout ratio of 50% and aims to increase dividend payouts by 6% annually till 2024.

Further, Fortis stock has gained 22% in the last 12-months compared to the S&P 500 gains of 23.7%. In the last five years, Fortis stock has risen by an annual rate of 2.5%. If you account for its five-year trailing dividend yield of 3.1%, it translates to annual returns of about 5.6%.

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