Canada Revenue Agency: 3 Critical TFSA Mistakes to Avoid in 2020

Description

A Tax-Free Savings Account (TFSA) is the best tool in your arsenal when it comes to achieving financial freedom.

A TFSA allows you to shield your capital from the Canada Revenue Agency (CRA) and its taxes. It does not matter how long your investments sit in the account or how much it grows. You get to keep 100% of any capital gains, interest, and earnings from your assets without paying income tax on them.

TFSAs are tax-proof but not foolproof. Many investors don't use their TFSAs to their full potential. Investors also make critical mistakes that can compromise the tax-sheltered status of their accounts.

I am going to discuss these crucial TFSA mistakes so that you don't make them and end up *paying* money to the CRA because of your TFSA.

Not investing regularly

The biggest mistake most Canadians make with their TFSAs is not investing regularly. If you invest correctly in your TFSA and max out the contribution room, you can earn a lot more down the road. You waste substantial potential long-term income if you do not use the full contribution room in your TFSA.

Not knowing your limit

Where some investors do not use the TFSA contribution room fully, others can be too eager to contribute to the account. It literally pays to know your limits when it comes to your TFSA. There is a maximum contribution room for the TFSA that the government updates each year. For 2020, the maximum contribution room is $69,500.

It means that since the beginning of the TFSA in 2009 up to 2020, you can hold $69,500 in cash or equivalent assets in your TFSA. This assumes you were 18 or older in 2009 – if not, you only have the cumulative contribution room of the years since you turned 18. If you contribute more than the limit, the excess amount is liable to taxation from the CRA, and the government will happily collect.

Not investing in income-producing assets

Filling up the contribution room in your TFSA by holding cash is a waste. The tax-sheltered status of the TFSA means any asset you hold in your account can sit there tax-free. It also means if the assets grow in value due to market appreciation, or they produce income through dividends, your wealth can grow significantly without affecting your contribution room.

Simply holding cash in the account is a waste of space due to low-interest rates. $30,000 worth of shares of an income-producing asset like **Granite REIT** (TSX:GRT.UN) can become worth far more than $30,000 in cash over time.

Granite, like its name, is a solid asset to consider. It is one of the largest and highest-quality industrial real estate investment trusts (REITs) in Canada. The REIT has more than 80 industrial and logistics properties in its portfolio, totalling around 40 million square feet. Its geographically diverse portfolio is spread across the U.S., Canada, and Europe.

In 2019, its net operating income (NOI) increased by 9.6% from the previous year. It also acquired eight million square feet of space for higher-grade tenants like **Amazon**.

Granite has a phenomenal balance sheet going into 2020. Its net leveraged ratio is just 21%. It has substantial exposure to international markets. Its most recent refinancing of a $300 million term loan saw its coupon rate drop by 80 basis points as well.

The REIT has the potential to outperform Canada's REIT index for several years to come. At writing, the REIT is trading for a discount due to the market crash. Trading for $63.29 per share, the stock pays its shareholders a juicy 4.59% dividend yield.

Foolish takeaway

Using the contribution room in your TFSA with income-producing assets can allow you to grow your long-term wealth substantially. You could invest in a rock-solid REIT like Granite to leverage its capital gains as the market recovers. While you wait for the dust to settle from the recession, your TFSA can grow through its dividend payouts.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:GRT.UN (Granite Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider

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Date
2025/08/26
Date Created
2020/03/18
Author
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