



Canada Revenue Agency: Over 80% of Canadians Are Making This TFSA Mistake

Description

According to data from the Canada Revenue Agency, just 20% of Tax-Free Savings Account (TFSA) holders [max out their contributions](#). Surprisingly, this figure is similar for people across salary ranges. This account provides flexibility and needs to be considered as a top investment vehicle for Canadians.

The first step for Canadians is to understand how much they are eligible to contribute toward a TFSA. This investment account was started back in 2009 for Canadians over the age of 18. So, if you were eligible to allocate funds to a TFSA in 2009 and have never done so, the total contribution room stands at \$69,500. You never lose your contribution room.

Alternatively, if you have contributed to the [TFSA in previous years](#), you will have to calculate the current limit. This means that if your total contributions stand at \$45,000, you can still allocate \$24,500 to this account in 2020.

Withdrawals from the TFSA increase the contribution room as they can be replaced. In case you withdrew \$5,000 for a down payment on your vehicle, the contribution room for the current year is increased by that amount.

The TFSA is one of the most flexible investment vehicles for Canadians. Any withdrawal in the form of capital gains or dividends is tax-free, which makes it ideal for income and growth investors.

TFSA's can be used to invest in a diverse portfolio of growth stocks that can increase wealth exponentially. We have seen stocks such as **Amazon**, **Apple** and **Netflix** create significant wealth for investors in the last decade.

If you had invested a total of \$69,500 in the three companies, the investment would have been worth over \$1.25 million in just 10 years.

Allocate your TFSA to this Canadian tech giant

While tech giants south of the border have created massive wealth, one domestic company has also managed to crush the broader markets. For example, a \$69,500 investment in **Constellation Software** ([TSX:CSU](#)) 10 years back would have ballooned to a staggering \$2.05 million.

Constellation Software is a leading provider of software and services to several public and private sector enterprises. It acquires, manages and builds mission-critical software businesses. This business model is unique, as Constellation Software has acquired several companies in the range of \$5 million and \$10 million.

The acquired companies are profitable and continue to grow top-line at robust rates, which in turn has helped CSU grow revenue and profit margins at a stellar rate in the past decade, driving its stock price higher.

With 125,000 customers in 100 countries, Constellation Software is well diversified. CSU's portfolio of solutions makes it easier to retain customers and its subscription-based business model ensures a steady stream of revenue.

CSU has a market cap of \$28.6 billion, which means it has a price to sales multiple of 7.1. Its forward price-to-earnings multiple of 39.5 is also expensive given the current economic environment. However, its subscription sales will help to offset business cyclicity and ensure a steady stream of recurring sales.

Further, analysts expect CSU to increase earnings by 18% annually in the next five years. Its growth rates and solid business model command a premium valuation.

The Foolish takeaway

You can see why TFSA investors need to take a long-term view of investing in the equity markets. The power of compounding is huge and can multiply your wealth over time. The COVID-19 pandemic will most likely be a short-term headwind. The current market pullback provides a good chance to max out your TFSA contribution limit.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
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