



CRA: 1/3rd of Canadians Are Making This Big TFSA Mistake

Description

The Tax-Free Savings Account (TFSA) has been a revelation for Canadian families since its introducing 11 years ago. The Canadian government created this account type to encourage Canadians to save more money. The account type is not only a fantastic way for people to save money, but it can also function as an excellent investment vehicle to grow their wealth.

You can hold any assets in your TFSA and watch it grow without incurring any taxes on the income you earn from your investments. It means the [Canada Revenue Agency](#) (CRA) will not tax any capital gains, interest, or dividend income in your account. While the TFSA has its benefits, there are certain rules you need to be aware of to make the most of the account.

According to the CRA, a third of Canadians make a tremendous mistake that compromises the tax-free status of their TFSA. If you do not know about it already, you should be aware of the fact that there is a maximum contribution limit to the TFSA.

A third of Canadians make the mistake of over contributing to their TFSAs, resulting in tax penalties that compromise the tax-free nature of the account.

Understanding the contribution limit

The best way to maximize the benefits of your TFSA is to understand how much you can contribute to it. You can fail to fully utilize the account if you fail to contribute enough and if you contribute too much. Both of these factors are determined by the maximum contribution limit.

The government increases the TFSA contribution limit each year by around \$6,000. The 2020 TFSA update increased the contribution room by a further \$6,000. If you have never contributed to a TFSA since it began, you can deposit a total of \$69,500 to your TFSA. Since the start of the TFSA, \$69,500 is the aggregate amount after 11 years of increases to the contribution limit.

If you have already contributed to your TFSA in the past, you should do a little homework about the contribution limit. For instance, the contribution limit increased by \$5,000 per year between 2009 and

2012.

For 2013 and 2014, the limit increased by \$5,500 per year. In 2015, it increased to \$10,000. Between 2016 and 2018, the contribution room increased by \$5,500.

In 2019 and 2020, the contribution room in your TFSA increased by \$6,000 per year. Based on these figures, the total contribution room available in your TFSA is \$69,500. Conduct your due diligence and calculate the contributions you have made to your TFSA in the past.

Your total contributions should not exceed \$69,500. Otherwise, any excess amount in your TFSA will incur taxes that the CRA will happily collect.

Make the most of your TFSA

The TFSA allows you to hold a variety of assets equivalent to the amount of \$69,500. While you can use the contribution room in your TFSA to store cash, it would be a waste of space. You can consider investing in an income-producing asset like **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) stock instead.

As any assets stored in your TFSA can grow without incurring tax or affecting the contribution room, an income-generating stock like Suncor could be an ideal option to consider. Not only can you rely on the stock to grow your wealth through capital gains, but you can also add substantial cash to your TFSA through its dividend payouts.

The recent [collapse in oil prices](#) put investors in fear that their investment in energy stocks could be in danger. However, oil prices have since started to recover, and Suncor is an energy superstar in Canada uniquely suited to weather commodity price volatility. Since its drastic slump, Suncor share prices have appreciated by more than 57%.

Despite the comeback, Suncor is still down by almost 50% from its 2020 peak. It means there is substantial room for the stock to recover. Buying shares of Suncor right now can earn you a solid income through its juicy 7.84% dividend yield.

Foolish takeaway

Understanding the contribution room in your TFSA can help you maximize the benefits of the account type. Using it to store income-generating assets with potential for capital gains can help you substantially grow your wealth in the long run.

To this end, Suncor could be an ideal stock to consider adding to your TFSA.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
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