Canada Revenue Agency: 1 Major TFSA Change to Be Aware of in 2020

Description

The Tax-Free Savings Account (TFSA) has been helping Canadians save up for the future. Since 2013, annual TFSA contributions have overtaken contributions to the Registered Retirement Savings Plan (RRSP).

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The 11-year-old investment vehicle is admittedly more popular now than the RRSP. Based on data from the Canada Revenue Agency (CRA), there were 14.1 million TFSA holders in 2017. Of the total number, 1.43 million users have maximized their contribution rooms.

In 2020, the new TFSA contribution limit is $6,000, the same as the 2019 limit. The total contribution room for someone who is eligible but isn't a user from the start is $69,500. With the money anxiety over the current pandemic, it wouldn't be a bad idea to maximize your TFSA.

Unrivalled benefits

A user can grow money tax-free throughout his or her lifetime. The benefits of the TFSA are fantastic. First and foremost, all profits from your contributions are non-taxable.

You can keep dividend earnings, interest, and capital gains to yourself. Also, the TFSA is very accessible. There are no withdrawal restrictions. Thus, you can withdraw at any time or whenever you need money. Many holders use this account to meet both short and long term financial goals.

Another exciting TFSA feature is the carryover rule. The CRA sets a limit every year. If you were able to contribute only 50% of the maximum in 2019, you could add the unused contribution of $3,000 to the $6,000 contribution in 2020. Your available contribution room for this year becomes $9,000.

Keep in mind, however, that the CRA will charge a monthly penalty tax for over-contribution. The penalty is equivalent to 1% of the excess amount. Hence, you will pay $20 monthly for an over-contribution of $2,000. You can rectify this common oversight by removing the excess contribution from your TFSA.

Top choice of TFSA users

Stocks are the preferred assets in the TFSA. They are risky investments, but the potential returns are higher compared with bonds, for example. But since volatility is high in the current investing climate, you need to be careful with your investment selection.

Fortis (TSX:FTS)(NYSE:FTS) is a standout during economic downturns. This $24.72 billion regulated electric company isn't on emergency lockdown. The infrastructure of its 10 utilities needs to operate 100%. Millions of customers across North America depend on the company's services.

In Q1 2020, net earnings grew to $312 million, which is $1 million over the same period in 2019. While that growth might look small, it reflects the modest impact of COVID-19 on Fortis' diversified business model.

Fortis is not under threat of financial instability as 82% of yearly revenues are protected by regulatory mechanisms. It even expects residential sales to increase during the pandemic.

More important, Fortis wants to assure its predominantly retail investors that the company remains on track to deliver a 6% average annual dividend growth through 2024. This utility stock pays a 3.58% dividend.

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Crisis-proof

You can continue to grow your TFSA balance during challenging times. The key is to know which assets are crisis-proof. I can tell you that the Fortis stock is one of them.

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