CRA: Over 33% of Canadians Are Making This Big TFSA Mistake

Description

The Tax-Free Savings Account (TFSA) was introduced in 2009. This account type has risen in popularity over the years due to its flexibility and tax-free withdrawals. As the name suggests, any withdrawals in the form of capital gains or dividends are not subject to taxes from the Canada Revenue Agency (CRA).

However, according to data from the CRA, a significant portion of TFSA holders make a big mistake. Around 33% of Canadians overcontribute to the TFSA, which results in tax penalties from the CRA.

What’s the TFSA contribution limit?

You need to be aware of the contribution limit for the TFSA that stands at $6,000 for 2020. If you have been eligible to contribute to this account since 2009, the total contribution limit is $69,500. This account is flexible and accounts for withdrawals made in the previous years.

For example, if you withdrew $18,000 from your TFSA in 2019, the total contribution limit for 2020 would be $24,000. Withdrawals are added to the TFSA contribution room at the beginning of the following year.

While ensuring you do not overcontribute to the TFSA, Canadians should also put the capital in this account to good use.

Identify dividend-paying stocks for your TFSA

The current market volatility is a perfect opportunity for Canadians to allocate funds to top-quality, dividend-paying companies. A company’s stock price and dividend yield move in opposition to each other. The recent pullback has driven forward yields higher, making stocks attractive for contrarian, growth, and income investors.

The market sell-off has driven stock valuations lower, which suggests quality companies can stage a comeback on a market rebound. As it is impossible to time the broader market, Canadians need to take advantage of every major correction. This gives them a chance to create significant wealth in the long term.

Shares of **Alaris Royalty** (TSX:AD) are currently trading at $9.60, which is 59% below its 52-week high. The company recently reported its first-quarter results and slashed dividends by 30%. Its dividend per share has fallen from $1.65 per share to $1.16 per share.

Despite this massive dividend cut, the stock is trading at a forward yield of a tasty 12.1%. It means an investment of $6,000 in Alaris will result in annual dividend payments of $726. You can double your money by reinvesting dividends in just over six years.

Alaris is an investment company and provides capital to profitable private companies in exchange for monthly cash distributions. These distributions are set around 12 months in advance and are based on the yield of the company's investment. Alaris generally has long-term partnerships with companies that have an enviable and proven track record.

Its long-term goal is to diversify and increase revenue streams, which will mitigate the risk of stakeholders. In its current revenue streams, Alaris projects annual organic growth between 3% and 5%.

The Foolish takeaway

Due to the ongoing COVID-19 pandemic, Alaris has switched its dividend policy to a quarterly payment rather than a monthly one. The dreaded coronavirus has impacted several companies, and Alaris is no exception. But this is likely to be a near-term headwind, and investors can look to buy this growth stock at a cheap valuation.

CATEGORY

1. Coronavirus
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1. TSX:AD.UN (Alaris Equity Partners Income Trust)

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