This Is the Biggest Mistake You Need to Avoid in Your TFSA

Description

The Tax-Free Savings Account (TFSA) is nothing short of spectacular. Even with this investment vehicle alone, you can grow your savings, build wealth, and retire comfortably. Its best feature is that all interest, gains, and profits from the account are tax-free.

However, the Canada Revenue Agency (CRA) can charge old and new users alike a penalty tax for mishandling the TFSA. Many account holders commit a big mistake. If you err like them, you'll be paying taxes when you shouldn't be at any time.

The cardinal rule

Since 2009, people have been contributing diligently to the TFSA. If you have dividend stocks in your TFSA, you have financial sustenance for life, aside from government pensions. Yearly, the Canada Revenue Agency (CRA) is setting contribution limits for users to maximize.

As a TFSA user, be mindful of the maximum contribution limit. The cardinal rule is that there shouldn't overcontribution to a TFSA. Break the rule, and you'll pay a corresponding penalty tax. Would you believe that more than 30% of TFSA users commit this oversight?

Contribution guidelines

From day one, the CRA is strict on the TFSA contribution limit. The instruction is very clear. You can't contribute beyond the annual limit, period. If the limit was $5,000 in 2009, you can't go over. In 2020, the maximum is $6,000, and the same rule applies.

There are perks, however, if you can't maximize the yearly TFSA limit. Unused contributions accumulate, and therefore, your available contribution room builds up. If you're eligible and will open a TFSA today, the cumulative total is $69,500. You can maximize the full amount if you have that much in savings.

Last year, the contribution limit was also $6,000. If you were able to use $3,000 only, you can carry over the balance and add it to the $6,000 in 2020. Hence, your available contribution becomes $9,000.

The penalty tax for overcontribution is 1% of the excess per month. You can pull out the excess amount to avoid the penalty.

Invest your cash

There's no compounding effect if you hoard cash in your TFSA. Yes, the investing ground is volatile at present because of the pandemic. However, there are stocks you can choose from that will generate income regardless of market conditions. One that will not disappoint is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

The second-largest bank in Canada is a survivor of countless recessions. Despite episodes of deep economic downturns, TD did not deprive investors of passive income. In Q1 of fiscal 2020 (quarter ended January 31, 2020), revenue and net profit grew by 1% and 4.61%, respectively versus Q4 2019.

The full impact of COVID-19 will be known when this $99.32 billion bank reports its Q2 fiscal 2020 results on May 28, 2020. Because of the market selloff, you can purchase TD for $54.90 per share. The dividend offer is a lucrative 5.75%. A $10,000 investment in your TFSA will produce $575 in tax-free passive income.

No shortchange

The TFSA will treat your money fairly with proper utilization. Whatever shortcoming is the fault of the user. Put in a blue-chip asset, and you can earn tax-free income for years.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred

4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/09/08
Date Created
2020/05/18
Author
cliew