



## Canada Revenue Agency: 3 TFSA Mistakes That Could Cost You Big Time

### Description

A Tax-Free Savings Account (TFSA) is perhaps the best tool in your arsenal when it comes to achieving financial freedom in the long run.

You can use your TFSA as a shield for your capital against the Canada Revenue Agency (CRA) for [tax-free growth](#) of your wealth. You can store capital within the account for as long as you want. Any earnings you make from assets stored in a TFSA will not incur income tax.

You can withdraw money from your TFSA without having to pay any fees or taxes. Whether your wealth grows through interest alone, capital gains, or dividends from the assets, you can enjoy the income tax-free.

While TFSAs are tax-proof investment vehicles, they are not foolproof. With all the flexibility the account type offers, there are certain aspects you need to understand if you want to benefit from it fully. Investors make several critical mistakes that can keep them from capitalizing on their TFSAs.

Today I'll discuss three of the crucial mistakes you should avoid with your TFSA and an asset you can consider holding in the account to achieve your long-term.

### Not investing regularly

The most common mistake Canadians make with their TFSAs is that they do not invest regularly. If you properly invest in your TFSA and fill up the contribution room, you can earn a substantial amount down the road. If you leave any contribution room in the account, you are wasting the potential growth of your wealth.

### Not understanding the contribution limit

Another grave mistake Canadians make is not understanding the contribution room. If you invest too much in your account and exceed the contribution room of your TFSA, you risk compromising the

account's tax-free status. It can pay you to know your limits when it comes to the TFSA.

There is a maximum total contribution limit to TFSAs. The government has been increasing this amount by \$5,000 or \$6,000 each year since 2009 when the account was first introduced. With the update in 2020, the maximum contribution limit for TFSAs is \$69,500.

From the point the TFSA was introduced to now, you can hold \$69,500 in cash or equivalent assets in your TFSA. This amount is under the assumption that you were 18 or older in 2009 and qualified to open a TFSA. If you were not 18 or older in 2009, your total contribution room is the sum of the updates to the amount since you turned 18.

If you add more to the account than your contribution limit, the [CRA will gladly come to collect](#) taxes on the excess amount until you bring the account balance down to the limit.

## Holding cash

Many Canadians are wasting the contribution room in their TFSAs to hold cash. While you can hold currency in the account, you should know that you can also hold *any* asset of the equivalent amount tax-free.

If you store capital in the form of money in your account, it will not grow substantially compared to an income-producing asset.

An ideal asset you can store in your TFSA to generate income is a dividend-paying stock like **Brookfield Renewable Power Fund** ([TSX:BEP.UN](#))([NYSE:BEP](#)). As its name suggests, the underlying company behind the stock is focused on renewable energy projects.

The world is becoming increasingly more environmentally conscious. There is an increasing trend toward shifting to renewable energy. While there is still plenty of room to grow for the sector, Brookfield is among the frontrunners that can capitalize on the surge.

BEP is continually acquiring assets that help it generate more clean and green energy. With growing demand, the company's geographically diversified revenue streams are helping it grow substantially. As well, 95% of its income consists of long-term contracts, which means that Brookfield's cash flow will remain mostly unaffected by market volatility.

## Foolish takeaway

When you avoid making these mistakes and invest in an income-generating asset, you can watch your capital grow to become a wealthy investor in the long run. At writing, BEP is trading for \$66.56 per share, and pays its investors at a 4.49% dividend yield.

I would suggest allocating some of the contribution room in your TFSA to the stock and let the investment grow.

### CATEGORY

1. Dividend Stocks

2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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## **Date**

2025/09/17

## **Date Created**

2020/06/11

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