WARNING: 1 Major TFSA Mistake to Avoid in 2020

Description

The Tax-Free Savings Account (TFSA) launched in Canada in January 2009. Since then, many Canadians have flocked to this registered account as their primary investment route. This should come as no surprise. The TFSA is attractive because of its flexibility.

There is also considerable flexibility when it comes to investment styles in the TFSA. A growth-oriented approach can net fantastic tax-free capital gains, while those seeking income can gobble up dividends without have to pay anything to the Canada Revenue Agency.

Today, I want to discuss an error that some TFSA investors can make in their use of this account.

Here is one major TFSA mistake to avoid

Back in late 2019, I'd discussed why investors need to avoid over-contributing to their TFSA. As it stands today, the cumulative contribution room in a TFSA is $69,500 — assuming the investor was eligible to contribute when the TFSA was launched in January 2009.

An overcontribution in a TFSA is subject to a 1% tax penalty per month. While this may not seem like a lot, it can really add up. This is especially true as the cumulative base value in a TFSA has increased.

How to sidestep this error

Fortunately, the way to avoid this error is in many ways connected to making it in the first place. Investors should establish ways to keep up with their contribution room. For example, those with a Canada Revenue Agency online profile can always check up on their TFSA status.

Many Canadians have accounts at multiple banks, which could make it difficult to keep track of contribution room. Instead, TFSA investors should look to consolidate their holdings at one financial institution. This is a good way to avoid mistakes like over-contribution going forward.

Two stocks to stash in your TFSA instead

While we work to avoid over-contributions, I'd also like to look at two stocks that would fit perfectly in a TFSA right now.

Manulife Financial (TSX:MFC)(NYSE:MFC) is a Toronto-based insurance and financial services company. Its stock has dropped 27% in 2020 as of close on June 30. This insurer has achieved impressive growth on the back of its burgeoning operations in Asia. While the COVID-19 pandemic has taken its toll on the business, it should return to form as the economy reopens.

Shares of Manulife last had a very favourable price-to-earnings ratio of 7.9 and a price-to-book value of 0.7. Moreover, it offers a quarterly dividend of $0.28 per share, which represents a strong 6% yield. TFSA investors should target Manulife right now.

Alcohol consumption has increased in North America during the COVID-19 crisis. **Corby Spirit and Wine** manufactures, markets, and sells spirits and wines. Its shares have climbed 8.4% in 2020 so far.

In its third quarter fiscal 2020 results, Corby achieved net earnings growth of 15%. The stock last had a P/E ratio of 16. This puts it in solid value territory.

Better yet, Corby last announced a quarterly dividend of $0.20 per share, which represents a solid 4.9% yield.

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aocallaghan