TFSA Users: 40% of You Are Making This Grave Mistake

Description

The Tax-Free Savings Account (TFSA) continues to gain popularity among Canadians. It is a tax-sheltered account and provides holders flexibility in terms of withdrawals and contributions.

While contributions towards this account are not tax deductible, you can withdraw dividends or capital gains on your investments without paying a single penny to the Canada Revenue Agency.

This makes the TFSA an ideal account to hold growth or dividend stocks over the long term. Growth stocks manage to generate market-beating gains and exponential returns. Alternatively, you can look to hold quality dividend companies in your TFSA that are able to increase dividends every year and build long-term wealth.

However, around 40% of Canadians are using the TFSA as a savings account instead. The interest rates for a savings account are below 2%, which might not be able to beat inflation rates for most years.

This means you might lose the real value of your savings by not investing in equity instruments. While the depreciation will not hurt you much in the short term, it can add up to significant losses after a few years.

The TFSA was introduced back in 2009, and its maximum cumulative contribution limit stands at $69,500. You can withdraw funds from this account at any time in case of emergencies and re-contribute these withdrawals in the next year.

Alternatively, you can also take advantage of compounded returns and remain invested by benefitting from dividends and capital gains.

Why this renewable energy stock is ideal for your TFSA

We have seen why you need to leverage the tax-sheltered status of the TFSA and focus on equity investing in this registered account. You can look to invest in stocks such as **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) to benefit from capital gains as well as a regular stream of dividend payments.

Brookfield Renewable Partners has returned over 100% in the last five years and has a dividend yield of 3.9%. The stock went public back in 2000 and has generated annual returns of 18%, easily outpacing the S&P 500, which is up 6% in this period.

As the world accelerates the shift towards the consumption of renewable energy, Brookfield is well poised to grow its portfolio, which will generate steady cash flows and support dividend payments.

Brookfield recently acquired TerraForm Power, which makes it one of the largest pure-play renewable power companies in the world. The company confirmed that the acquisition will be accretive to cash flow and will significantly enhance its growth prospects in the upcoming decade.

Brookfield has increased dividends for 10 consecutive years, and this streak is unlikely to end, despite a sluggish macro environment. The company's payout ratio is just over 50%, giving it enough room to increase dividend payments or reinvest in growth opportunities, including acquisitions.

The Foolish takeaway

The TFSA can help long-term investors build wealth and accelerate retirement plans. However, you need to identify the right stocks that have robust growth prospects, a huge market presence, and market leadership.

CATEGORY

1. Dividend Stocks
2. Investing

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