CRA to Canadians: 80% of You Are Making This HUGE TFSA Mistake

Description

If there's one thing every Canadian should be doing, it's using a Tax-Free Savings Account (TFSA). Since its creation in 2009, the Canadian government has increased the contribution room every year for Canadians to save and invest tax free. But according to the CRA, only about one in five Canadians is taking full advantage.

It's not just about having the funds available either. There are many Canadians among that 20% making $20,000 to $25,000 and still meeting the contribution limit. Of course, it's easier to invest when you have cash on hand, but there are simple ways to remedy this mistake.

Step one: Know your limit

Before you go putting everything you have into a TFSA, know the contribution limit. The government adds to this limit every year, making the grand total for 2020 $69,500. That never goes down and can be used at any time.

However, say you use all that room this year. Next year, you can only apply the further contribution room given by the government, usually around $6,000. It also means say you max out and then take out some money, you can't re-contribute later in the year. You'll have to wait for the next year to meet that limit once more.

It can get complicated, but before you go crunching numbers, simply call the CRA, or, better yet, log into your account on the CRA website. It will tell you exactly how much room you have available to contribute.

Step two: Start it up!

There are two parts to this step. First, you need to figure out how often you can afford to contribute. If you are able to first put your savings into a TFSA, that's perfect. Even if you don't invest it all now, having it maxed out is exactly what you should do.

Then have a number in mind of automated payments. A great suggestion is creating them based on 10% of your paycheque. Then you don't have to worry about spending that money.

Finally, pick a great number of solid stocks to see you through long term. That way you can keep your maxed-out contributions safe. Great options are Canadian banks. Banks have historically done well during downturns, rebounding within a year, and have dividends you can also invest without hurting your contribution limit.

For my money, I would go with **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). This bank has been growing rapidly across the United States, providing the largest growth opportunity among the Big Six banks. It's also one of the largest, with over a trillion in assets to fall back on during hard times. Shares are still below pre-crash norms, so you can still pick up this stock for a discount!

Bottom line

Making these changes gives your TFSA the perfect chance at paying you back. If you hold onto stocks like TD Bank for decades, you'll see your funds soar. By maxing out your contribution limit, you give yourself the best chance at maxing out your return on investment, creating a nest egg to use whenever the time should arise. Now, start contributing!

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