Canada Revenue Agency: Almost 80% of Canadians Are Making This TFSA Mistake

Description

According to the Canada Revenue Agency (CRA), just 20% of Tax-Free Savings Account (TFSA) holders have maxed out all their contributions. This is a really low number given the flexibility and benefits provided by the registered account.

The report that was published last year estimates 20% of Canadians earning between $20,000 and $25,000 a year have maxed out their TFSA contribution limits. This percentage is similar for higher-income groups as well, making it all the more surprising. If you have additional disposable income, it becomes easier to save and invest.

The TFSA is a registered account that was introduced back in 2009. It allows Canadians to contribute a certain amount each year that can be used to purchase equities, bonds, or ETFs. You can grow your investments under a TFSA completely tax-free. Any withdrawals in the form of interests, dividends, and capital gains are exempt from Canada Revenue Agency taxes. Further, you also have the flexibility to withdraw your savings at any time.

If you withdraw funds from the TFSA, you can contribute this amount into the account in the next year, without affecting your contribution room. Further, if you do not use your contribution room the unused amount can be carried forward in the next year.

As TFSA withdrawals are not accounted for as income, it does not impact your pensions, disability amount, or government benefits. The maximum cumulative contribution room for a TFSA holder is $69,500, while the contribution room for 2020 stands at $6,000.

Hold growth stocks in your TFSA

We can that it makes sense to maximize your TFSA contributions every year. This account remains ideal to hold dividend growth stocks such as **Enbridge** (TSX:ENB)(NYSE:ENB). Quality dividend stocks provide investors with an opportunity to generate a passive income stream as well as benefit from long-term capital appreciation.

Dividends are solid wealth-builders and companies that consistently increase payouts tend to outperform peers and the broader markets. Enbridge is one such company that has increased its dividends at an annual rate of 11% in the last 25 years, which means investors can take advantage of investing in Enbridge and benefit from its forward yield that stands at a juicy 8.4%.

So, an investment of $10,000 in Enbridge will help you generate $840 in annual dividend payments. These gains will be tax-free if you hold the stock in your TFSA. Alternatively, if Enbridge continues to increase dividends at an annual rate of 8%, this payout can increase to $2,180 after accounting for re-investments at the end of two decades.

Enbridge is an oil and gas infrastructure heavyweight and generates over 95% of cash flows from fee-based or regulated contracts. In the second quarter of 2020, the company earned $1.21 in distributable cash flow per share and paid $0.81 in dividends, indicating a payout ratio of 67%.

In 2020, the company has forecast to earn distributable cash flow between $4.5 and $4.8 per share, which will be enough to cover its dividends of $3.24 per share for the year. It is a stupendous achievement for Enbridge to maintain its dividends at a time when peers are grappling with mounting losses.

Enbridge stock is trading 33% below its 52-week high, which means TFSA investors will benefit from capital gains as well, given the stocks 12-month average target price of $52 which is 36% above the current trading price.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks

3. Investing

Date
2025/09/16
Date Created
2020/10/08
Author
araghunath