Quick! Maximize Your TFSA Contribution Limit Before the Rules Change

Description

The Tax Free Savings Account, or TFSA, is probably the most cherished investment program in the country. Every adult has some space to invest capital that is completely shielded from tax consequences. For most investors, tax-free capital gains or dividends are invaluable.

However, I believe the government could be compelled to rein in this popular program soon. This year's crisis has been unprecedented, both in its scale and duration. The government has had to borrow an incredible amount to keep families and businesses afloat. Now, higher taxes and lower incentives could be the only way to mitigate the debt.

Here's a closer look at what this means for you as a TFSA investor.

TFSA target

As of 2017, Canadians collectively held $276.7 billion in their TFSAs. That's roughly 12% of the nation's pre-crisis annual output. The balance would have been much higher if every eligible citizen maximized their TFSA contribution room. According to Statistics Canada, there's an average of $30,947 of utilized contribution room per person.

That means the Canada Revenue Agency (CRA) has effectively missed out on billions of dollars in taxes over the years. Next year, the government may consider not increasing the contribution room. It could also consider reducing some of the tax benefits or tightening the rules around this generous program.

Tightening the TFSA could be one of several ways that the government tackles its immense debt burden in the future.

Maximize your TFSA

Tightening the TFSA or reducing tax-shield benefits isn't on the radar right now. The government, of course, hasn't even mentioned something like this. Nevertheless, pragmatic investors must consider the possibility of higher taxes and lower tax incentives in the future. With this in mind, maximizing the

TFSA is a safe and practical strategy.

If you have some TFSA contribution room left, here's a robust dividend stock you should consider.

TFSA stock pick

Constellation Software (TSX:CSU) is my top pick for anyone's TFSA. In fact, this stock is such a compelling story, I encourage everyone to take a closer look, regardless of investment strategy.

Constellation offers enterprise software subscriptions to niche industries. Its growth is driven by the acquisition of smaller software firms. In fact, the company has bought and integrated hundreds of tiny software firms to expand the company. That's delivered a 1,000% return in just eight years.

The company's runway for growth is still as wide as ever. There's plenty of opportunity to expand overseas. Meanwhile, more than half of the firm's annual earnings are derived from government agencies. This means their cash flow would be unencumbered, even in this recession.

Adding Constellation Software to your TFSA could be the best way to lock in long-term gains before the government reduces tax incentives.

Bottom line

The TFSA could become a target as the government focuses on mitigating its debt burden in the future. Investors should maximize their contribution limit and try to invest earlier to avoid tax consequences.

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