CRA: 33% Of Canadians Are Making This Costly TFSA Mistake

Description

The Tax-Free Savings Account (TFSA) was introduced as a blessing to Canadian citizens 11 years ago. The Canadian government introduced TFSAs to encourage Canadian families to help them improve their habit of saving money. The account is an ideal tool to help Canadians reach their goals to save and achieve financial freedom and counteract their love affair with debt.

Many consider the TFSA as the perfect investment vehicle. With all the tax advantages that the account offers, there are intricacies about the account that people do not regard. According to the Canada Revenue Agency (CRA), 33% of Canadians make a crucial mistake with their TFSAs.

According to the CRA, a third of Canadians are not aware of the maximum contribution limit to their TFSAs. You can fail to fully maximize the benefit of the account if you do not max out the contribution room. Another mistake you can make is over contributing to your account and incurring taxes on the excess amounts.

I will tell you about the TFSA contribution limit, so you can avoid making this mistake. Additionally, I will tell you how you can use stocks like the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to maximize this account's benefit.

Understanding the contribution limit

The TFSA contribution limit is a crucial aspect you need to understand. The government has been increasing the limit each year since introducing the account type. The government typically increases the maximum limit by $5,000 or $6,000. The 2020 update added $6,000 to the maximum contribution limit.

If you have opened a TFSA and never made a contribution to the account, you can contribute a total of $69,500 to your TFSA. If you have already contributed to your TFSA in the past, you need to determine how much you can contribute before reaching the maximum limit.

If you contribute an amount more than the limit, the CRA can tax you for the excess money you hold in your TFSA. By tracking how much you contribute to the account and remaining within the limit, you can max out the account without incurring tax penalties.

Making the most of your TFSA

You can store $69,500 in cash or assets equivalent to that value. Any earnings you make on your TFSA holdings through interests, capital gains, or dividends will not incur any taxes. You might assume storing cash is a safe decision. However, there is a better way to use your TFSA contribution room and make it worth much more.

You can store a variety of investment vehicles in the amount, including dividend stocks like Toronto-Dominion Bank. Once you purchase the shares of TD and store them in your TFSA, you can see consistent returns from the stock grow your account balance without any income taxes.

Besides capital gains, TD also provides its shareholders with dividend payouts. At writing, the stock is trading for $59.35 per share. Its valuation is at a discount of 19.16% from the beginning of 2020. It means holding the stock in your TFSA can open the doors for capital gains once the economy begins to improve, and the stock returns to normal valuation.

Additionally, the stock pays you at a juicy 5.32% dividend yield. You can significantly grow your TFSA account balance between the capital gains and dividend payouts by holding dividend stocks like TD.

Foolish takeaway

The pandemic and ensuing market meltdown have shown how crucial it is to create savings for rainy days. It would be best to take a more active approach to understand your TFSA contribution limit and investing in stocks that can help you fully utilize the account to your advantage.

Investing in dividend stocks is an ideal approach with your TFSA. I think TD is a perfect stock that you could consider adding to your TFSA investment portfolio.

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