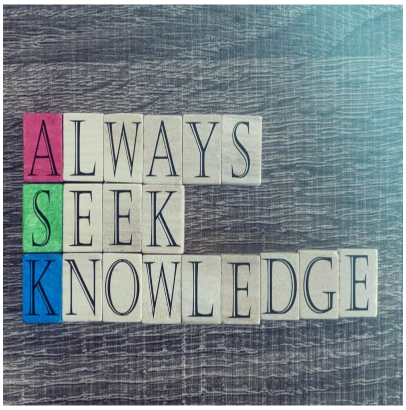

Canada Revenue Agency: 3 TFSA Tips Everyone Should Know

Description

TFSAs are your best bet for a comfortable retirement. But they're not foolproof. Millions of Canadians fail to use them to their full potential. They leave thousands or even millions of dollars on the table.

If you want to maximize your TFSA, pay close attention.

Go for the limit

It's obvious that you should save as much as possible. That's especially true for TFSA holders. But there's actually a tricky misconception that makes TFSA investors *fail* to invest the maximum.

Like other tax-advantaged accounts, TFSAs have an annual contribution maximum. For 2020, the limit is set at $6,000. But you'd be wrong to think that this is the maximum amount you can contribute this year.

For these accounts, unused contribution space from previous years *rolls forward* to this year. Let's do an example.

In 2019, the TFSA contribution limit was $6,000. That's the same maximum as 2020. If you had a TFSA last year but didn't contribute a single penny, all of that $6,000 in contribution space rolls forward to 2020. So, this year, you'd actually have $12,000 in potential contribution room.

Contribution room begins to accrue the year of your 18th birthday. Add each year's limit together to determine your personal lifetime maximum. No matter what the specific annual maximum is for that year, make sure you don't stop there, as you may have extra room from previous years.

Don't go crazy

You want to contribute as much as you can to your TFSA, but don't go overboard. If youovercontribute, the CRA will tax the excess amount by 1% every month. That can add up.

The solution is simple: contribute as much as possible, but never go over your personal limit.

The other thing to remember is that TFSAs are not suitable for day trading. You want to maintain a long-term focus. If the CRA does classify your portfolio as a day-trading account, you could lose your tax advantages. If this happens, your TFSA will be taxed at business rates.

Again, the solution is simple: don't day trade in a TFSA.

Be a TFSA millionaire

Everyone wants to be a millionaire. Tax-advantaged retirement accounts give you a big boost in that direction. To fully succeed, you'll need to fill your account with the right stocks.

Many investors like to invest their TFSA capital into dividend stocks like **Enbridge** (TSX:ENB)(NYSE:ENB). Enbridge has a quasi-monopoly on pipeline infrastructure in North America. It transports 20% of the continent's crude oil. That gives it sustainable pricing power, which fuels an 8% dividend.

With a TFSA, those dividends are tax free. Just don't think dividend stocks are your best bet.

To accelerate the value of your TFSA, consider high-growth tech stocks like **Shopify** (TSX:SHOP)(NYSE:SHOP). Shopify is an asset-light business, meaning it can expand much faster than capital-heavy businesses like Enbridge. The company's e-commerce software is already growing by 50% per year. And while the market cap is above $100 billion, the total opportunity is well into the trillions.

Shopify's biggest days of growth are behind it, but software businesses like this can generate huge tax-free gains for your TFSA.

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