



CRA: Forecast Your TFSA Contribution Limit for 2021

Description

Every fall, the Canada Revenue Agency (CRA) updates some of the flagship retirement and pension schemes for taxpayers. In a previous note, I'd mentioned the [recent updates](#) to the popular Canada Pension Plan (CPP) and the Registered Retirement Savings Plan (RRSP). Now, investors and taxpayers must turn their attention to the Tax-Free Savings Account (TFSA).

The TFSA, which is probably the most popular investment saving scheme in the country, is occasionally updated. However, this update isn't done to reflect changes in the country's fiscal and economic situation. Instead, it's done to keep the amount of contribution steady based on inflation. Here's what this means for your finances going into 2021.

TFSA contribution updates

The CRA updates the TFSA contribution limit based on two factors — inflation and simplicity. In other words, the agency is trying to preserve buying power but doesn't want the contribution room to be too abstract for investors to remember.

To this end, the CRA publishes an "indexation factor" every year, which is its estimate of how much prices of goods and services have gone up in the past year. Last year, this number was 1.9%. This year's number should be published in a few weeks.

However, the TFSA contribution limit is *rounded off to the nearest \$500*. This is done to make the total contribution number easy to remember. So, if the upcoming indexation number isn't big enough, the TFSA contribution room for 2021 could remain at \$6,000.

Can the CRA make changes?

The federal government does exert some control over the TFSA beyond the rules mandated by the CRA. For example, the conservative government roughly doubled the TFSA contribution room in 2010 to \$10,000. The limit has never before or since been that high, but it does demonstrate that the government can make sudden changes to the program.

This year, however, the government is even less likely to offer such a sudden boost. The 2010 TFSA boost is estimated to have cost \$1.3 billion in lost tax revenues that year. This year the government's spending deficit is already at a record high. I can't imagine them adding another few billion to the massive pile of debt and deficits in 2021.

Meanwhile, the lockdowns have dampened inflation in 2020. This means the TFSA limit is likely to remain at \$6,000 in 2021.

What to do with your TFSA contribution in 2021

Since we're only a few weeks away from the CRA announcement and the new year, it's probably time to pick investments for your TFSA contribution. My [top pick](#) is utility giant **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)).

Fortis is what investors would call a Dividend Aristocrat. It's currently on a 46-year streak of annually increasing dividends. I prefer to call it an all-weather stock. Because the ability to sustain cash flows and maintain dividends, despite multiple economic crises over half a century probably makes Fortis the most reliable stock on the market.

Fortis stock currently trades at a price-to-earnings ratio of 20 and offers a juicy 3.7% dividend yield. I'd recommend you set some cash aside to add this TFSA-appropriate stock in 2021.

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