Want To Retire Wealthy? Don’t Make These 2 Massive TFSA Mistakes

Description

The Tax-Free Savings Account (TFSA) makes it possible for Canadians to build a fortune and hit their long-term financial goals. Also, nothing beats the tremendous tax advantages of a TFSA. You can grow your money tax-free, withdraw anytime without fear of a tax penalty, and keep earning for life.

Set aside a portion of your income to contribute every year to create more income. If you dream of retiring wealthy, use your TFSA properly. Some users commit two massive mistakes when maintaining this unique investment vehicle. Don’t make the same mistakes so you can fulfill your dream.

1. Holding cash

If you haven’t opened a TFSA and opt not to open at all because you missed out on contribution years, it’s an error in judgement. However, the bigger mistake is if your only purpose to open a TFSA is to store or hold cash. It’s not an ordinary savings account but a unique investment vehicle.

The TFSA is the place where money begets money. There’s no room for idle cash. To realize the full benefits of your TFSA, you need income-producing assets. Don’t worry about the Canada Revenue Agency (CRA) infringing on the account. All interest, gains or earnings are non-taxable by the CRA.

2. Over-contribution

The CRA sets the contribution limit to the TFSA yearly, so you must follow the rules. If the 2020 TFSA contribution limit is $6,000, don’t go beyond or over-contribute. The excess amount will incur a 1% per month penalty. Remember, a TFSA should be tax-free all the way unless mismanaged by the user.

This month, the CRA should be announcing the new annual contribution room for 2021. Had you opened a TFSA in 2020, you'll gain more contribution room on January 1, 2020. Remember, too, that you get back the room from withdrawals you made in the prior year. For Canadians who have never contributed to a TFSA but are eligible since 2009, the cumulative contribution room in 2020 is now $69,500.

Go with the flow

Dividend stocks are eligible investments in a TFSA, but not all dividend payers are safe holdings. The stock market is unpredictable, so it's your lookout to pick a dependable wealth-builder. **Emera** (TSX:EMA) is a worthy consideration because it's a diversified utility company.

The $14 billion company derives steady revenue by generating and distributing electricity to 2.5 million utility customers. It also engages in gas transmission and utility energy services. Emera has seven regulated companies and two unregulated investments in six countries.

For TFSA users, the utility stock is outperforming in 2020, with its 6.16% year-to-date gain.Emera pays a 4.56% dividend, which should be good to produce $6,840 in tax-free income if your investment is $150,000. In 20 years, your capital would be worth $365,933.99.

With the evolving energy landscape and rising demand for renewable energy, Emera is going with the flow. The company is exploring emerging technologies and solutions to address changing customer needs. Expect Emera to play a critical role in shaping the future of the industry.

Avenue to wealth

No investment account can match the tax-free money growth feature and flexibility of the TFSA. Manage your TFSA correctly to unlock the door to riches. Canadians should be thankful they have an avenue to retire wealthy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
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Date
2025/07/22
Date Created
2020/11/13
Author
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