



TFSA Limit 2021: You'll Almost Certainly Get \$6,000

Description

It's November, and that means the 2021 TFSA limit is about to be announced. Every year, the CRA adds new TFSA contribution space. Last year, the amount added was \$6,000. This year, it's almost certain to be the same amount. While this isn't 100% guaranteed, there's a calculation the CRA uses to decide the TFSA limit. This calculation makes \$6,000 *almost* a sure thing. In this article, I'll be exploring why that is — *and* what to do with your new space.

Why \$6,000 will almost certainly be the new limit

Absent intervention by parliament, the TFSA limit is set by a simple formula: base year amount times (one + inflation rate). That amount is [rounded to the nearest \\$500](#). So, if the formula outputs \$6,100, you get \$6,000. If it outputs \$6,251, you get \$6,500. This explains why the TFSA limit stays the same in some years and abruptly jumps by \$500 in others. The rounding means it will either jump by \$500 or not increase at all.

This method of calculating the TFSA limit virtually guarantees we're going to get \$6,000 in new space this year. According to the personal finance site *Finiki*, the "unrounded amount" for 2020 was \$5,959. According to *StatCan*, the CPI for August was 0.5%. Using the TFSA limit formula, we get an "unrounded amount" of \$5,988. That again rounds to \$6,000. So, most likely, \$6,000 is what we're getting in 2021.

Still, it's not *quite* a guarantee

With all the above being said, it's not *totally* guaranteed that we'll get \$6,000 next year.

That's just the number we get when we use the TFSA formula that's used most years — that is, the formula used if the CRA is left to its own devices. It's entirely within parliament's power to set it at any arbitrary number. In 2015, this actually happened, when the outgoing Harper government set the TFSA limit at \$10,000. Going by the normal calculations, the amount for that year would have been \$5,000 or \$5,500. The following year, Trudeau trimmed it down to \$5,500 — the standard calculated amount for

that year, using *two* years prior as the base year.

What to do with new TFSA contribution space

If you're planning on using your \$6,000 in new contribution room next year, there are many ways to use it.

One of the best is to [invest in dividend stocks](#). Dividend stocks generate automatic cash income that the TFSA shields from taxation. Normally, dividend taxes are impossible to avoid, because dividends are paid automatically. But the TFSA is one of the few ways you can avoid them.

Let's imagine you got \$6,000 in new TFSA room and invested it in **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) stock. Enbridge stock yields 8.5%. So, you'd get \$510 back in dividends on the \$6,000 position. That's a pretty decent cash payout for just \$6,000 invested. Those dividends would be completely tax free inside a TFSA. And, if you realized a capital gain on your Enbridge shares, that would be completely tax free as well. So, investing in dividend stocks like Enbridge is a great use of your new TFSA contribution space. All \$6,000 of it!

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