



TFSA Contribution Limit 2021: Where to Invest

Description

The 2021 Tax-Free Savings Account (TFSA) contribution limit has been set at \$6,000, bringing the cumulative TFSA contribution limit to \$75,500. I have some ideas on where to invest this money. But first, let's recognize the importance of the TFSA. The potential tax-free income on this sum of money is significant.

Why invest in a TFSA?

The TFSA was first introduced by the Canada Revenue Agency (CRA) in 2009 and set up by then Finance Minister Jim Flaherty. The TFSA was introduced to encourage Canadians to save money. But it also has many trickle-down positive effects. More savings mean more investment in companies. In turn, more investment means greater economic growth and job creation. Finally, greater economic growth means increased tax revenue for the government. So we come full circle.

For average Canadians, it makes sense to direct some of our savings to the TFSA. Over time, the tax savings available from the TFSA have increased significantly. This is simply because the TFSA contribution limit in 2021 is \$75,500. The tax savings are therefore increasingly significant and meaningful. For example, let's assume we take advantage of the full \$75,500 contribution room. If I assume a 4% average annual return, this would translate into more than \$4,000 in tax savings since 2009.

One of the most important cardinal rules of managing our finances is also the most simple: take advantage of every break. Whenever you're offered money, do what it takes to be able to take advantage of the offer. Max out on company RRSP matching plans. Max out on your TFSA. Even if you have to make some sacrifices to do this, it will be worth it in the long run.

How to take advantage of the 2021 TFSA contribution limit

So the 2021 TFSA contribution limit is \$6,000 — the same limit as the 2020 limit. It is what was generally expected. How should we take advantage of this? Well, setting up regular deposits to your

TFSA is a good way forward. It's a similar process as RRSP contributions. Setting a predetermined amount aside every month makes achieving your TFSA savings goal much easier.

I'm still working on maximizing my TFSA. I keep a list of stocks to buy for my TFSA so I'm always ready. With this added contribution room, I plan to buy **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). Suncor stock has been in the depths of despair for many months now.

But the Suncor company has been handling things like a champion. Suncor has a stable, diversified and integrated oil and gas business. It has a robust cash flow profile that supports its 3.7% dividend yield. And Suncor is investing for the future and ensuring it thrives today.

Rising oil prices favour energy stocks like Suncor

We are finally seeing strength in oil prices again. As they close in on \$45, energy stocks are rallying. We are also seeing a return of optimism as a coronavirus vaccine is imminent. A return to some type of normalcy will encourage oil demand, which will take oil prices even higher.

All of this bodes well for Suncor stock. So far this month, Suncor stock is up 52%. This is a reflection of [just how undervalued its shares had gotten](#). As the oil and gas sector continues to rally, I expect more upside for energy stocks like Suncor.

The bottom line

The TFSA contribution limit for 2021 has been set at \$6,000. It is a good idea to max out on this contribution room if you can. I recommend using this new room to buy Suncor stock. Because this stock is severely undervalued, and investors may finally be [rectifying this valuation gap](#). Suncor is up more than 50% so far this month. It is yielding 3.7%, and makes a perfect addition to your TFSA today.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

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1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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