3 Giant TFSA Mistakes Most Canadians Are Making

Description

The rise of the Tax-Free Savings Account (TFSA) in Canada is phenomenal. Its introduction in 2009 gave Canadians a unique way to save money in a tax-advantaged account. You can open a TFSA and contribute every year as you chase after short-term or long-term financial goals.

People should appreciate the beauty and learn the real benefits of the TFSA. However, most users commit three giant mistakes concerning this investment vehicle. If you can avoid them, you can reap greater rewards in the future.

1. Storing cash only

I have to repeat that the name of the TFSA is a misnomer, if not confusing. Don't treat the TFSA as regular savings account because the title says so. You downplay the fantastic features if you use the TFSA as cash storage. Surprisingly, 42% of holdings in TFSAs across Canada are in cash, according to a 2019 survey.

The creator did not intend the TFSA to be storage for cash. Rather, store income-producing investments like bonds, GICs, mutual funds, and stocks. Take advantage of tax-free money growth and tax-free withdrawals.

2. Withdraw and contribute on the same year

TFSA users are familiar with the annual contribution limits but overlook one withdrawal rule. Let's assume you've maxed out your limit this year and withdraw $1,000 today. You can't return or invest the same amount right away.

The rule is you can't withdraw and contribute in the same year. If you still make the deposit, you're over-contributing and risk paying 1% of the excess as a tax penalty.

3. Investing with outstanding debts

The third mistake has more to do with financial discipline. If you have large debts or credit card balances, it would be best to pay them down first before investing in your TFSA. Debts are obstacles to saving for the future.

The sooner you can be debt-free, the better. Besides, there's no advantage to you if your TFSA earnings or returns are less than the interest you pay for your loans or credit card debts. Once you're debt-free, you can start growing your TFSA balance with investment income.

Sustainable profitability ahead

An under-appreciated income stock that is ideal for TFSA users is **Savaria Corporation** (TFSA:SIS). This $685.73 million company provides personal mobility solutions in North America and other regions. It boasts an extensive product portfolio consisting of stairlifts, ceiling lifts, commercial lifts, home elevators, and adapted vehicles.

Savaria's business will endure and outlast COVID-19, given the high demand for mobility products. The company is the leader in the accessibility industry. In Q3 of the fiscal year 2020, signs are evident that sustainable profitability is on the horizon. The 18.6% Adjusted EBITDA margin was the highest in years.

President and CEO of Savaria Marcel Bourassa sees strong growth potential for Savaria Vuelift, an innovative home elevator. The company project sales to reach 600 units per year by the end of 2023. It should translate to approximately $30 million in revenue across Savaria's global market.

For TFSA users, this industrial stock trades at $13.34 per share and pays a 3.60%. Similarly, Savaria is one of the reliable monthly dividend companies in the TSX.

Rare find

The TFSA is a rare, one-of-a-kind investment vehicle for Canadians. Use it properly to realize the full benefits. As your money grows, you reduce your tax burden simultaneously.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SIS (Savaria Corporation)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

Category

1. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2020/11/26
Author
cliew