Canada Revenue Agency: Top 3 TFSA Mistakes

Description

The Canada Revenue Agency created the TFSA with a single goal.

"It is a way for individuals who are 18 and older … to set money aside tax-free throughout their lifetime," the agency explained. "Any amount contributed as well as any income earned in the account (for example, investment income and capital gains) is generally tax-free, even when it is withdrawn."

You can make millions with a TFSA, all of it tax free. To maximize the amount of money you can make, avoid the following mistakes.

Old versus new

Consider a stock like **Suncor** (TSX:SU)(NYSE:SU). From 1995 to 2008, shares rose 8,300% in value. When you include dividends, the total return might be closer to 9,000%. That's 90 times your original investment over a 13-year period.

Then something strange happened. Since 2008, shares have *lost* two-thirds of their value.

This is a tail of two halves. If you're investing with a TFSA and have a long-term view, you want to be on the right side of history. Stocks like Suncor are on the *wrong* side of history.

The world will be using fossil fuels for decades to come, but the writing is on the wall. **BP**, for example, recently released a report claiming that global oil demand will never reach 2019 levels again. Meanwhile, a glut of low-cost supply is pushing prices lower and lower.

Contrast Suncor with **Brookfield Renewable** (TSX:BEP.UN)(NYSE:BEP). This stock is the future. Over the last five years, $1.5 trillion was invested in renewable energy deployments. Over the next five years, spending should balloon to $5 trillion.

Brookfield is on the right side of history. Its growth is just beginning. For TFSA holders, don't automatically go with trusted names like Suncor with a long operating history. Look for stocks that are building the future.

Dividends versus growth

With a TFSA, everything is tax free. That includes both capital gains and dividends. Getting tax-free dividends is too good to pass up for many people.

Unfortunately, dividend stocks aren't the way to go when you have unlimited tax savings potential.

Sure, you can protect your 5% annual dividends from taxes, but these companies pay out cash to shareholders because there aren't enough internal growth opportunities worth funding. What you want with a TFSA is a company that has a ton of opportunities to reinvest its earnings.

If you can get 1,000% tax-free returns, why settle for a 5% tax-free dividend?

The biggest TFSA mistake

You know the saying: it takes money to make money. Even with a tax-free account, you still need to contribute the initial capital.

Millions of Canadians have underfunded TFSAs. The annual contribution limit this year is $6,000, but only a small fraction of us will hit that maximum.

If you have the funds to max out your TFSA every year, there's no reason not to. Withdrawals can occur at any time for any reason.

If you don't have the funds just yet, don't worry. The key is to start small, even as low as $50 per month. You just need to get the habit started, then you'll instantly be ahead of the competition.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:SU (Suncor Energy Inc.)

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