



Canada Revenue Agency 2021: 1 Crucial TFSA Change You Must Be Aware of

Description

The Canada Revenue Agency (CRA) recently announced the new annual limit for the TFSA (Tax-Free Savings Account) in 2021. There has been no increase to the annual contribution limit, which means it stands at \$6,000 — similar to the last two years.

Further, there is another important change for TFSA users in 2021, which is the cumulative contribution limit of \$75,500. This figure is basically the maximum contribution sum for each year since the TFSA was launched in 2009.

Canadians need to ensure they do not over-contribute to this registered account and avoid a 1% penalty (per month) from the Canada Revenue Agency.

TFSA holders can enjoy tax-free returns

One of the major advantages of generating income under a TFSA is the opportunity to benefit from tax-free gains. While contributions to this account are not tax deductible, any withdrawals in the form of interest, capital gains, or dividends are absolutely tax-free.

This makes the TFSA an ideal account to hold dividend-paying stocks, where investors can generate a regular dividend stream as well as capital gains over the long term. One such stock is **Canadian Western Bank** ([TSX:CWB](#)), [a company](#) that has a diversified funding mix and focused on increasing branch-based deposits.

At the end of the third quarter of fiscal 2020, CWB's total loans rose 5% year over year to \$29.7 billion, up from just \$9.3 billion in the fourth quarter of fiscal 2009. CWB stock is trading at \$30.6, which indicates a forward dividend yield of 3.8%.

The financial sector has been hit hard amid the pandemic, as Canada's unemployment soared higher, increasing the risk of mortgage and corporate defaults. A low interest rate environment is also expected to weigh on profit margins in the near term.

However, Canadian Western Bank claims its liquidity management is based on a stressed cash flow model. Here, the level of liquid assets is driven by the term structure of assets and liabilities and the liquidity structure of liabilities.

The bank continues to maintain higher levels of cash and securities to support its liquidity position and manage market volatility.

What's next for investors?

At the end of Q3, CWB's provision for credit losses was 33 basis points compared to 19 basis points in the prior-year period and 49 basis points in Q2. It said, "The provision for credit losses on performing loans reduced to 11 basis points of average loans this quarter, reflecting a slight worsening of the economic outlook this quarter."

While Canadian Western Bank's [net profit in Q3 rose](#) almost 20% on a sequential basis, it was down 10% compared with the prior-year period. Analysts expect a Q4 net profit of \$64 million indicating a year-over-year decline of 6.4%. Comparatively, earnings might fall 5.4% year over year to \$0.74 in Q4.

CWB has improved its online presence to attract the next generation of Canadians. This might help the company offset a part of the pandemic-related decline. Its net interest income has remained relatively stable at \$200.8 million in the July quarter compared with the prior-year figure of \$199.7 million.

If net interest income figures do not fall off a cliff, its improvement in the bottom line will help drive CWB's stock price higher in the next year.

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