



Canada Revenue Agency: Your TFSA Limit Is \$75,500 in 2021

Description

On November 20, 2020, the Canada Revenue Agency (CRA) officially announced the new Tax-Free Savings Account (TFSA) contribution limit for 2021. The annual limit is the same as in 2019 and 2020: \$6,000.

However, the significant change is the increase in the cumulative contribution from \$69,500 to \$75,500. The amount is substantial, given that a TFSA is a tax-advantaged account. If you have eligible investments in your TFSA worth that much or less, all earnings, interest, or gains are [100% tax-exempt](#).

Unmatched versatility

Since its introduction in 2009, the TFSA has become an [essential part of financial plans](#) among Canadians. The program is newer (11 years old) than the Registered Retirement Savings Plan (RRSP), which has been running for 63 years. Today, the younger TFSA is more popular than, the older RRSP.

The unique features of the TFSA make it the most versatile investment account on the planet. While the name suggests it's a savings account, the functions and usefulness are without comparison. You should own one to take full advantage of the benefits. The program's design is for Canadians to have a vehicle to save for the future and finance retirement.

However, the TFSA is a multiple-purpose facility, enabling you to achieve financial goals at various stages of life. Since there are no taxes on money growth, you can save more for your children's education.

You can also build a fund for unexpected expenses or emergencies. Old Age Security (OAS) pensioners need not worry about the notorious 15% clawback since TFSA earnings don't count as taxable income and, therefore, off-limits to the CRA.

Not a one-time thing

The CRA sets a limit yearly, which means your TFSA contribution is not a one-time thing. In case you've maxed out your limit but need money, you can withdraw. You can re-contribute the funds you take out provided the deposit is made next year and not on the same calendar year. Also, the unused contribution room carries forward automatically.

Top TFSA holding

Imagine the tax-free earnings if you have \$75,500 available room and invest it in a buy-and-hold stock like **Bank of Montreal (TSX:BMO)**([NYSE:BMO](#)). The oldest bank and fourth-largest in Canada is the first company ever to pay dividends.

BMO trades at \$96.77 per share and maintains a payout ratio of less than 65%. A \$75,500 position will generate \$3,306.90 in tax-free income from its 4.38% dividend. The money will compound to \$177,947.77 in an investment horizon of 20 years.

Crisis after crisis, this \$62.2 billion bank has consistently paid dividends. Among the worst, it has endured were World War I and II, the Great Depression, and the 2008 Global Financial Crisis. In the current environment, the headwinds are low-interest rates and the COVID-19 pandemic.

BMO Financial Group received the highest ranking among its Canadian peers on the Dow Jones Sustainability Indices (DJSI) North America Index. The *Wall Street Journal* names it too as one of the most sustainably managed companies in the world.

No tax worries

The TFSA is best if you're saving for milestone events like a dream vacation or a wedding. However, it's excellent if your focus is retirement. You can fast track building a nest egg without tax worries.

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