



## CRA Tax Announcement: New TFSA Limit for 2021 Is \$6,000

### Description

The Tax-Free Savings Account (TFSA) contribution limit for 2021 is \$6,000. For the [third time in as many years](#), Canada's famous investment vehicle's annual dollar limit did not change. The Canada Revenue Agency (CRA) formally announced the new limit on November 20, 2020.

Canadians who did open or who haven't contributed since 2009 but are eligible to do so will have a total contribution room of \$75,500. The CRA indexes the annual TFSA limit to inflation and rounds it to the nearest \$500. For next year, 1.0% is the indexation increase.

### More tax-free income

TFSA users with maxed out contribution limits will have a window to earn a tax-free income again in 2021. All earnings, interest or gains from TSFSA contributions are not tax-deductible. Withdrawals, too, are not subject to a penalty tax whatsoever.

Account-holders who withdrew last year can make deposits anew. Remember, if you've reached the annual limit in 2020 and withdraw funds, you can't return the money in the same year or the CRA will penalize you for over-contribution. However, your unused contribution room can carry over to the next year.

### Reduce tax bills

Tax experts' advice to Canadians is to maximize the use of their TFSAs. The TFSA is not a regular savings account, but an investment vehicle and a tax-advantaged account. Taxpayers, especially the younger ones, should learn to leverage TFSA contributions if they expect to land in higher income tax brackets in the future.

### Eligible investments

When you open a TFSA, it's [no longer breaking your piggy bank](#) to put money in a low-interest bearing savings account. Apart from cash, you can hold investments such as bonds, exchange-traded funds, guaranteed investment certificates (GICs), and stocks in your TFSA.

## Dividend king for a TFSA

Most TFSA users prefer dividend stocks over other investments because of higher returns. While GICs are less risky, the funds are locked in, and you can only redeem it upon maturity. Income investors pick **Keyera** ([TSX:KEY](#)), for example, because the energy stock is a dividend king. The yield today is 8.33%.

Assuming you can contribute the full \$6,000 TFSA contribution limit, your cash will generate \$499.80 in tax-free income. If you keep reinvesting the dividends and Keyera maintains the yield, your contribution will grow by 495% to \$29,725.99 in 20 years.

Keyera is a top-rank independent midstream energy company in Canada. The \$5.14 billion company owns an extensive network of natural gas processing facilities and pipelines. The sector is highly volatile in 2020, although Keyera can overcome the headwinds.

Since revenues come from fee-for-service based, long-term contracts, cash flows would be stable for years. Furthermore, a project pipeline worth \$2 billion is ongoing in the Montney and Duvernay development areas. Add the Wapiti gas plan that should drive cash flow growth soon. Management expects to realize an annual return on capital of 10% to 15% in 2022.

## Much-awaited announcement

The CRA's official announcement of the new TFSA contribution limit for 2021 is welcome news. It gives TFSA users another opportunity to multiply their savings some more in the New Year. Similarly, the income stream from a high-yield dividend stock can serve as an emergency fund if the recession extends to the next year.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:KEY (Keyera Corp.)

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