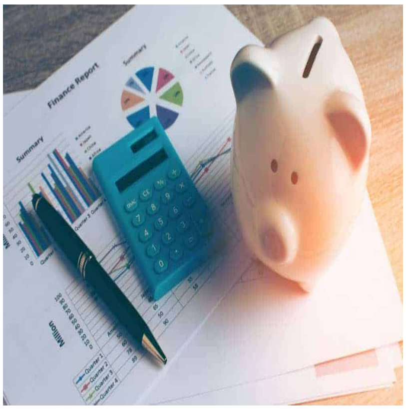

$75,500 TFSA Limit in 2021: Save on CRA Taxes Once Again

Description

The Tax-Free Savings Account (TFSA) doesn't function like a regular savings account. It's a registered investment account where you can hold financial assets such as bonds, ETFs, GICs, mutual funds, and stocks. Cash is good too, but holding cash a common mistake of many TFSA users.

However, the real upside is when you max out your TFSA limit every year. The Canada Revenue Agency (CRA) announced the annual contribution limit for 2021. With the $6,000 new limit and cumulative contribution room increasing to $75,500, users can save on taxes once again next year.

Tax-advantaged account

A TFSA is ideal for tax-conscious Canadians saving for the future or retirement. The funds grow faster because you pay "zero" taxes on interest and investment income you earn. Flexibility is also a salient feature, since withdrawals are likewise tax-exempt or penalty-free.

From 2019 to 2021, the annual contribution limit did not change and remained at $6,000.The cumulative contribution room applies to those who are eligible but have not opened a TFSA since 2009. The CRA has no restrictions regarding the number of accounts.

You can have more than one TFSA at any given time, provided the total contributions to all your TFSAs don't exceed the contribution room for that year. Also, the unused contribution room carries over to the next year.

No impact on benefits and credits

The earnings or withdrawals by a TFSA user will not reduce federal income-tested benefits and credits such as Employment Insurance (EI), Old Age Security (OAS), and Guaranteed Income Supplement (GIS). Furthermore, it will not affect your eligibility for benefits like Canada Child Benefit (CCB),Canada workers benefit (CWB), and the Goods and Services Tax/Harmonized Sales Tax (GST/HST)credits.

CRA intervention

A TFSA user shouldn’t pay tax at all. The CRA will only intervene if you over-contribute or carry a business in your TFSA. Your excess contribution will incur a 1% penalty tax monthly. Withdraw the amount to avoid the penalty. Frequent trading or buying and selling stocks for profit are major infractions. The CRA will treat all earnings as business income and, therefore, as taxable.

Income stock for your TFSA

TC Energy (TSX:TRP)(NYSE:TRP), the preeminent distributor of natural gas across Canada and the U.S., is a top pick for TFSA users. This $53.70 billion energy infrastructure company pays a high 5.67% dividend. A $6,000 position will generate $340.20 in tax-free passive income. A $75,500 position will generate $4,280.85 in tax-free passive income.

The energy stock fell sharply to $46.45 at the height of the March 2020 market selloff. However, TC Energy rebounded after, and shares are currently trading at $57.13 (+23% rally). Analysts forecast the price to climb to $75 (+31%) in the next 12 months further. The current price is a good entry point.

With its organic projects and strategic acquisitions, growth is on the horizon. TC Energy’s existing secured development portfolio stands at nearly $30 billion. Once these new assets are on board, expect revenue and cash flow to expands some more. Dividend growth of between 8% and 10% could be forthcoming next year.

Effortless maintenance

The TFSA is easy to manage and requires minimal effort. Be mindful of the limits, monitor your available contribution room, and pick the right eligible investments. Max out your TFSA every year if possible to reap the full benefits.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

PARTNER-FEEDS

1. Business Insider
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