TFSA Investors: 90% of You Are Making This Huge TFSA Mistake

Description

Are users getting the most from their Tax-Free Savings Accounts (TFSAs)? The TFSA is the single most important investment vehicle for Canadians since the Registered Retirement Savings Plan (RRSP).

While the TFSA is relatively younger than the RRSP, the rise in popularity is phenomenal because of its unique features and unmatched flexibility. A TFSA not only eliminates taxes on earnings, interest, or gains, but it's also a great tool with which to build retirement wealth.

However, 90% of TFSA users make this huge mistake. You're not making the most of this powerful investment tool if you're not maxing out the TFSA limit every year. If you do, you might not need a second retirement account at all.

The journey to wealth

The journey to wealth begins with the opening of a TFSA if you don't already have one. Every year, the Canada Revenue Agency (CRA) sets an annual contribution limit, which is indexed to inflation. The contribution room accumulates if you haven't been maxing out your TFSA.

Since 2009, the cumulative contribution room in 2020 is $69,500. With the new $6,000 annual contribution limit for 2021, it will increase to $75,500. Remember, too, that even withdrawals are tax-free. You can re-contribute the withdrawal amount this year (if limit is maxed out) next year.

Create a TFSA savings plan

You can implement a disciplined approach to building wealth by setting aside a fixed amount monthly for savings. If it's $500 per month, you save $6,000 per year or an amount equivalent to the TFSA annual contribution limits in 2019, 2020, and 2021.

Once you get used to the habit, you have a solid savings plan. Adjust the fixed amount higher, not lower, if you can free up more cash. If your available room is more than the annual limit, you can easily catch on your unused TFSA contribution room.

The majority of TFSA users invest the money in reliable dividend stocks. I won't have second thoughts about choosing **TransAlta Renewables** (TSX:RNW) because the renewable energy space offers visible growth in the near future. Aside from the 5.21% dividend, the utility stock is a top-performer with a 29% year-to-date gain.

TransAlta has a market capitalization of $4.8 billion and the largest generator of wind power in Canada and owns one of the largest wind portfolios in North America. This asset portfolio accounts for more than 50% of the cash flows. The company also operates fully-contracted renewable power generation facilities in hydro, solar, and gas.

Most of the assets and projects are in growing industrial regions. TransAlta's power purchase agreements (PPAs) with regulators and customers are typically long-term. The weighted average contract life is 11 years, so cash flows should be stable, while dividend payouts are sustainable. The $18.03 share price today is a good entry point.

Clear the path to wealth

Saving during a recession is challenging, especially when money is tight. However, if you can cut your expenses and set aside the difference when regular income is back, it's worth the sacrifice.

The path to wealth opens up whenever you have available cash to max out your TFSA every year. Furthermore, you won't regret the decision because you'll benefit the most from the one-of-a-kind investment vehicle.

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