



Canada Revenue Agency: What Is Your 2021 TFSA Limit?

Description

This year has reiterated the lesson of savings to everyone. Savings come in handy during a crisis. Those who learned this lesson in the 2009 crisis started saving in the Tax-Free Savings Account (TFSA) and are enjoying almost a quarter-million in tax-free savings on just \$69,500 investment today. You can do the same. The Canada Revenue Agency (CRA) has set the TFSA [limit for 2021](#) at \$6,000.

Before I tell you how to make a \$250,000 TFSA portfolio, it's important to know the benefits of a TFSA.

What is your TFSA limit for 2021?

The CRA started the TFSA in 2009 to encourage Canadians to save more. It allows you to contribute a certain amount every year from your after-tax income in TFSA. Since 2009, the contribution limit has ranged between \$5,000 and \$10,000. For 2020 and 2021, the TFSA limit is \$6,000. If you were 18 years of age or older in 2009 and have never contributed to the TFSA, you can contribute a lump sum of up to \$75,500 in 2021.

The CRA doesn't give you any tax breaks on the TFSA contribution. However, it doesn't touch the money that grows in the TFSA. You can even withdraw this money without adding it to your taxable income.

I will offer an example. Every year since 2010, Jake has invested \$5,000 in TFSA and paid tax on his contribution. By 2020, he contributed \$55,000 to this account and has paid tax on the same. He made some wise investment decisions that increased his [TFSA contribution almost 10-fold to \\$500,000](#). The CRA can't touch this money. He can withdraw the entire amount without adding it to his 2020 taxable income.

Should you invest a lump sum amount in your TFSA?

You can also contribute a lump sum of up to \$75,500 in 2021. Whether you should contribute a lump sum amount depends on your age, financial goals, taxable income, and investment opportunities.

For instance, if you are retired and have got an annuity payment, a lump sum investment in TFSA is a good idea to enjoy tax-free withdrawals. But you will have to pay tax on the annuity amount. If you don't want to pay tax, you can transfer the annuity amount to Registered Retirement Income Fund (RRIF). But then your withdrawals will be taxed.

Your investment strategy will change depending on whether you make a lump sum contribution or an annual contribution.

How to convert \$6,000 into \$160,000

The TFSA allows you to invest in stocks, bonds, and other investment instruments. The stock market can give you some of the highest returns. But it also comes with a higher risk. Hence, a good way to invest in the stock market is by diversifying your risks between large-cap and mid-cap stocks, growth, and dividend stocks, and low- and medium-risk stocks.

You can convert your \$6,000 TFSA contribution to \$60,000 in 10 years or less, depending on the stocks you choose. The world is changing. Oil companies that enjoyed strong returns for over a century are seeing a slowdown in growth, and tech stocks are basking in the sun of growth.

Tech stocks have outperformed the stock market in the last 10 years. They have also shown their resiliency to the pandemic. They grew by leaps and bounds during the pandemic, as the world adopted digital products.

iShares S&P/TSX Capped Information Technology Index ETF ([TSX:XIT](#)) gives you exposure to the top 18 tech stocks trading on the Toronto Stock Exchange. It has the highest exposure (almost 50%) to **Shopify** and **Constellation Software**. The ETF has delivered 19.4% average annual returns in the last 10 years. If you invested \$5,000 every year from December 2010 in the XIT ETF, today you would have around \$180,000 in TFSA. And this money would be tax-free.

Considering the XIT's average annual growth rate slows to 15%, your \$6,000 contribution every year will give you \$164,000 in 10 years. The XIT TF is just one investment option. There are many other options you can consider.

Investor corner

Investing through TFSA can maximize your returns by making your investment income tax free. Hence, I would suggest you invest in high-growth and high-dividend stocks through your TFSA.

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Author

pujatayal

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