TFSA Limit 2021: Where to Invest Your $6,000

Description

The Canada Revenue Agency (CRA) recently announced that the Tax-Free Savings Account (TFSA) limit for 2021 will be $6,000. Investors with cash to contribute to their TFSA next year might wonder where they should invest the funds. But before many any decision, you need to understand how the TFSA works.

Important things to know about the TFSA

The Canadian government created the TFSA in 2009. Since then, the TFSA limit has increased each year and the cumulative space is now $69,500. Increasing the limit by $6,000 in 2021 will bring the cumulative contribution space to $75,500, giving Canadians considerable room to build attractive, tax-free income portfolios and retirement funds.

All interest, dividends, and capital gains generated in a TFSA remain beyond the reach of the Canada Revenue Agency. The TFSA offers great flexibility, allowing people to withdraw funds as they need. The amount withdrawn is added to the TFSA limit room during the following calendar year.

Retirees can use the TFSA to create an income stream that will not push them into a higher tax bracket or reduce their Old Age Security (OAS) pension.

Young investors can use the TFSA to save for the purchase of a home or to build a personal pension fund to supplement their RRSP savings as well as future Canada Pension Plan (CPP), OAS, and workplace pension plans.

Where to invest the $6,000 TFSA limit in 2021

In 2020, the stock market winners have clearly been tech stocks. As they continue to benefit from the work-from-home trend and new digital initiatives, tech stocks should keep performing well in 2021. Plus, the recent pause in tech stocks rally has improved their risk/reward outlook.

Enghouse Systems (TSX:ENGH) and **Shopify** (TSX:SHOP)(NYSE:SHOP) are two tech stocks that could generate big gains for TFSA investors in 2021. Those are two great stocks to invest your $6000 2021 TFSA limit.

Enghouse Systems provides enterprise software solutions. The company typically spending between $20 million and $40 million per year to acquire good quality software assets at low prices, which are used in contact centres, telecommunication networks, transport systems, and use for video conferencing.

In its third quarter of 2020, Enghouse generated revenue of $131.3 million, up 30% year-over-year. Net profit for the period jumped 77% to $26 million. Enghouse stock has a current dividend yield of 0.8% and the company has increased its dividend for 12 consecutive years. Enghouse Systems has a five-year cash flow growth rate of 13.7% and a five-year earnings per share growth rate of 19.0%.

E-commerce growth has accelerated this year, spurred by COVID-19. It's poised to break all records for volume during the holiday season. This shift to e-commerce is benefiting Shopify. As small and large retailers move their business online, many of them use Shopify's platform to reach their customers.

Shopify just doubled its revenue in the third quarter of 2020, as total sales on its platform, Gross Merchant Volume, grew 109% year-over-year to reach $ 30.9 billion.

"Despite the heightened uncertainty surrounding the macro environment, Shopify remains uniquely positioned to level the playing field for entrepreneurs during this period of rapid change in the retail landscape," said Shopify in its Q3 press release at the end of October.

Shopify is expected to deliver excellent results in its upcoming fourth quarter, driven by a strong holiday selling season.

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