



TFSA Limit Update: New Contribution Room in 2021 Is \$6,000!

Description

Canadians anticipate tremendous [financial stress](#) heading into 2021. Apart from health, financial wellness is the priority in the current recession. Displaced workers had to cut back on ordinary expenses to ensure there's enough cash on the table to ride out the crisis.

According to the Canadian Payroll Association (CPA), about 62% of Canadians save more than 5% of their paycheck in 2020. Recipients of various emergency income support programs from the federal government are setting aside a portion of the pandemic money for savings.

The data reveals more people want to build up savings to add [more financial buffer](#). Meanwhile, the Canada Revenue Agency's (CRA) announcement of the new TFSA contribution limit for 2021 is timely. With the \$6,000 limit, TFSA users can save more. More importantly, the earnings from the account are tax-free.

New TFSA limit

The extreme uncertainty about economic recovery forces Canadians to control spending or not spend beyond their means. Canada did more than compensate distressed workers and businesses. It's good because it will improve financial health in 2021.

If personal finances allow, TFSA users can max out next year's limit to get the most from the investment account. The \$6,000 TFSA annual contribution limit in 2021 is the same as the limits in 2019 and 2020.

Growing pot of cash

Since the second quarter of 2020, Statistics Canada has been monitoring the savings rate of Canadians. Disposable families' incomes climbed sharply during the quarter on account of higher government transfers and emergency wage benefits. Household spending fell too amid the shutdowns. Greg Peterson, Assistant Chief Statistician at Statistics Canada, said the notable

divergence is not what we usually see.

With Canadians hoarding cash at a record level, there's a pot of cash sitting in households. A report by the **Canadian Imperial Bank of Commerce** estimates the excess cash to be around \$90 billion, the highest in Canada's history. The report also cites Canadian businesses with another \$80 billion in cash hoard.

Dividend all-star for your TFSA

The \$6,000 TFSA limit can buy shares of an established dividend all-star like **Canadian Western Bank** ([TSX:CWB](#)). This \$2.69 billion bank has raised its dividends for 28 consecutive years. Today, it pays a 3.84% dividend. The payout ratio is less than 40%. At the share price of \$30.90, you'll own nearly 195 shares and max out your TFSA limit.

Despite the strong headwinds in the banking sector, CWB proved resilient and survived the battering. The stock price fell to as low as \$15.46 on March 23, 2020. However, it has rallied since and returned to the pre-corona level. As of December 2, 2020, CWB trades at \$30.42, a meteoric rise of 97% from its COVID-low.

Nearly 33% of CWB's loan portfolio is in Ontario. According to Executive Vice President Stephen Murphy, the bank is in growth mode and continually expanding to meet clients' full needs, most especially business owners. From the fiscal years 2017 to 2019, the top and bottom lines have been consistently increasing.

Tax-free money growth

There's no downside to maintaining a TFSA. Since the contribution is not a one-time thing, you can keep growing your money the tax-free way. If you can max out your limit yearly, the more tax-free income you'll earn.

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