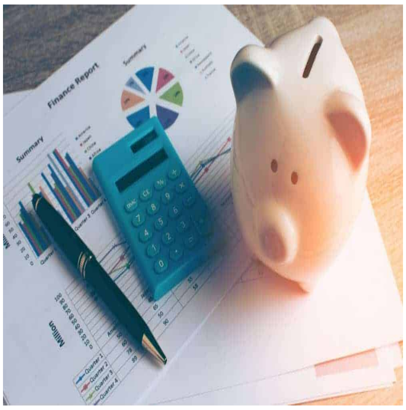

Canada Revenue Agency: 1 Gigantic TFSA Mistake to Avoid

Description

Cash is king, but not necessarily in a Tax-Free Savings Account (TFSA), because it's an investment vehicle first and foremost. You're underutilizing the account if you're simply hoarding cash. The purpose of opening a TFSA is to enable your money to quadruple in value with eligible investments like bonds and stocks, not cash.

Surprisingly, a recent **Bank of Montreal** survey reveals that, on average, 38% of TFSA users have cash as their primary investment. While there are zero risks than non-liquid investments, the TFSA is your vehicle to grow savings faster. Idle money won't help you achieve short-term and long-term financial goals.

Investment flexibility

Keeping cash is always an advantage, and I'm not advising against prioritizing cash. However, it's a mistake you should avoid when maintaining a TFSA. The money should be working for the investor. It would be advantageous to have income-producing assets besides cash.

You'd miss out on returns, the magic of compounding, and not beat inflation if you store cash alone in your TFSA. Don't worry about losing access to the money, since you can withdraw any amount at any time without incurring tax or penalty. Remember that all interest, gains, or dividends earned within a TFSA are 100% tax-free.

The TFSA came after a crisis

Since 2009, the TFSA contribution room is accumulating, with the Canada Revenue Agency (CRA) setting contribution limits every year. With the $6,000 annual limit for 2021, the total contribution limit for anyone who was at least 18 years old in 2009 would be $75,500. Expect inflation-adjusted contribution limits to keep rising in future years.

Note that the federal government introduced the TFSA after the 2008 financial crisis and ensuing economic meltdown. The aim was to encourage Canadians to save and invest to ensure financial stability in the future. We are in a health crisis with a recession that's likely to extend in 2021.

Save and invest

If you'd been saving in the pandemic, as 61% of Canadians did, as **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) survey results show, consider using your free cash to purchase dividend stocks. You can create an income stream to have more financial cushion.

Scotiabank is a blue-chip asset that's ideal as anchor stock in your TFSA. Canada's third-largest bank ($83.05 billion market capitalization) is a generous dividend payer. Likewise, its dividend track record is an impressive 188 years, dating back to 1832. Currently, the bank stock pays a 5.25% dividend.

Despite a 22% drop in net income (from $8.8 billion to $6.8 billion) in fiscal 2020 versus last year, Scotiabank is as formidable as ever. Its repositioning efforts, including high loan-loss provisions, contributed to the bank's operational resiliency during the pandemic.

According to Brian Porter, Scotiabank president and CEO, the bank expect to benefit from the economic recovery, given Canada's ongoing vaccination campaign.

Tax-free money growth

The same survey also found that only 49% of the 1,500 respondents know that a TFSA can hold both cash and at least one other type of investment. Cash is safe, but you would need faster money growth if you're preparing for uncertain times. Users can generate tax-free passive income from this one-of-a-kind investment vehicle.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/25
Date Created
2020/12/28
Author
cliew