CRA: 51% of TFSA Investors Are Clueless About How to Use it

Description

The Tax-Free Savings Account (TFSA) has been around for 11 years now. Introduced in 2009, it is a massive improvement over the traditional Registered Retirement Savings Plan (RRSP). Both accounts offer you tax-sheltered status to grow your assets. However, there is a difference between the two.

Your TFSA contributions are through post-tax dollars. Your contributions can grow tax-free, *and* you can withdraw your TFSA funds without incurring taxes when you do that. You don't need to wait until your retirement until you can use the funds from your TFSA.

Unfortunately, the **Bank of Montreal** unearthed a shocking mistake that TFSA users are making with their accounts.

TFSA awareness

Canadians have been contributing regularly to their TFSAs since the account's inception. The report found that the average amount held in TFSAs increased by 9% from last year. However, the report also found that TFSA users are also underutilizing their accounts.

Additionally, 51% of Canadians did not even know that they can hold both cash, and at least one other type of investment in their account. While Canadians have increased their TFSA contributions, they are using the contribution room to primarily hold cash. Around 38% of the TFSA holdings, according to the BMO report, are in cash.

The TFSA might have "savings" in its name, but it is better off as an investment vehicle. Using the TFSA contribution room to hold cash means that Canadians are missing out on more substantial tax-free capital growth that they can otherwise enjoy through dividend stocks.

Better alternative to cash

If you want to unlock the true potential of your TFSA, a reliable dividend stock like **Telus Corp** (TSX:T)(NYSE:TU

) could be a much better way to use the contribution room. Holding cash in your TFSA could entitle you to tax-free capital growth through 1.5% to 2% interest rates. However, holding a stock like Telus could provide you with far better returns in the long run.

Telus is a telecom giant in the country trading for $25.56 per share at writing, and it offers its shareholders dividends at a juicy 4.87% dividend yield. Holding shares of Telus in your TFSA means that you can leverage its capital gains and steady dividends to grow your account balance without incurring any income taxes.

Telus can provide you with a reliable growth of wealth due to its ability to generate increased revenues. The business of selling wireless data and phone services is essential, making its revenue virtually guaranteed. The stock has tripled in valuation over the last 30 years, making it an excellent dividend stock to consider for your TFSA.

Foolish takeaway

If you have allocated most of your TFSA contribution room for cash, I would recommend reallocating the space for better alternatives. Holding a portfolio of dividend-paying stocks with increasing dividends could be a much better way to use your TFSA. I think Telus could be an excellent stock to begin building such a portfolio.

Holding a portfolio of the right stocks in your TFSA can make you a wealthy investor in the long run compared to holding cash.

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