TFSA Users: 53% of You Are Making This Massive Mistake!

Description

Canadians are putting more money in their Tax-Free Savings Accounts (TFSAs) in 2020 despite the financial impact of the COVID-19 pandemic. Based on a **Bank of Montreal** survey results, the average amount held in a TFSA is $30,921. The amount is nine percent more than the 2019 figure.

While 53% of the poll respondents said they met their contribution targets this year, a significant number (39%) are underutilizing the unique investment account. The crafters of the TFSA will tell you that it's a colossal mistake if you were to use the account as cash storage. You'll lose out on your TFSA's extraordinary benefits.

Fatal flaw

The BMO survey results are encouraging because Canadians desire to be resilient amid the challenging environment. Saving money has become an important activity, if not a top priority during the pandemic. However, keeping cash in a TFSA is a flaw because it's more than a regular savings account.

Surprisingly, just 49% of the total respondents are aware they can invest at least one other investment type besides cash. The design of the TFSA is to make sure money grows faster and in a tax-free way. Putting cash in your TFSA isn't bad, but the benefits are more if you allow the money to work and earn.

Tax-free money growth

Your TFSA is a tax-sheltered savings vehicle more than anything else. Cash isn't the only eligible or qualified investment. Resourceful TFSA users would rather own income-producing assets such as bonds, mutual funds, ETFs, GICs, and stocks than cash. The TFSA is your tool to achieve short-term and long-term financial objectives.

No investment account can compare to the features of a TFSA. The CRA fully taxes earnings in a non-registered account. Capital gains or interest earnings in a TFSA are entirely on a tax-free basis.

Similarly, you can withdraw any amount at any time without incurring any tax or penalty.

Preferred investment

Most TFSA users prefer investing in dividend stocks because the potential return is much higher. However, you must be thorough in your selection. Your investment choice must be capable of enduring a recessionary environment. A top-of-mind defensive asset is **Emera** (TSX:EMA).

Emera is a $13.45 billion diversified energy and services company whose operations are in Canada, the U.S., and the Caribbean. It's safe to invest in this company the portfolio of electric and natural gas utilities, natural gas pipelines are predominantly regulated. About 95% of earnings come from regulated operations.

After the first three quarters of 2020, Emera's reported net income was $84 million or 53% better than the same period last year. But the better news is the greater focus on clean energy. Management commits to reduce its greenhouse gas (GHG) emissions by 50% in 2023. Emera also targets coal generation to reduce by 80%.

There's a strong potential for a double whammy (dividend + capital appreciation) if you invest today. Emera pays a 4.73% dividend price, while analysts forecast the price to rise 26% to $68 within a year.

Idle cash brings the least benefit

Idle cash in a TFSA brings the least, if not "zero" benefit. Maximize its tax advantages by investing some savings in income-producing assets. See your money grow faster too.

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2. Investing

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