CRA: 1 Big TFSA Change Could Save You Thousands of Dollars

Description

The Tax-Free Savings Account (TFSA) is one of the best things that Canada has come up with since the maple syrup. Canadians actively using their TFSAs eagerly await the Canada Revenue Agency (CRA) to announce the important news towards the end of each year regarding TFSAs.

If you have a TFSA and are unaware of the update, you are in for some good news. The CRA announced a $6,000 contribution limit increase for 2021. This massive change in the TFSA can help you save thousands of dollars if you use your contribution room wisely.

TFSA allows tax-free capital growth

The TFSA is an excellent investment vehicle. The account allows you to save thousands of dollars in the long run because anything you store in the account is in after-tax dollars. It means anything you invest in and store in the account can grow in the TFSA tax-free. Most TFSA users use the account to store income-generating assets in the long run to leverage the tax-free growth.

All the interest, capital gains, dividends, and any other profits are safe from the CRA's clutches. The government agency can't take any of your TFSA earnings through income taxes. Withdrawals from your account are also tax-free. The CRA can't charge anything, regardless of how much you withdraw from your TFSA.

The only time you could compromise your TFSA's tax-free status is by going over the contribution limit. The CRA can charge you 1% tax on the excess amount per month in your TFSA when you exceed the contribution limit.

Explosive growth to benefit from with your TFSA

With the $6,000 additional contribution room, it is a good time for you to consider how to use the contribution room to maximize its benefits for you. You can purchase more shares of companies you already own or add new companies to your TFSA portfolio.

Using the TFSA contribution room to hoard cash is a big mistake that many Canadians make. I would suggest avoiding cash in your TFSA and investing it in a high-growth tech stock like **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD) instead.

Lightspeed POS provides omnichannel solutions for small-scale retailers and restaurants. The company suffered significantly due to the initial impact of COVID-related lockdowns because its customers had to close their stores. However, it updated its offerings to cater to e-commerce platforms and the increased demand for online shopping.

The stock price shot up after its March 2020 lows. At writing, the stock is trading for $87.87 per share. It is up more than 630% from its lowest point in the year. Lightspeed was already showing great signs before the pandemic. The demand for its services will likely sustain or even increase in the next few years. Additionally, the company is expanding its offerings to attract more clients and increase its revenues per customer.

Foolish takeaway

Investing in a high-growth tech stock that is likely to grow through the current market conditions and sustain its growth after the pandemic could be an ideal way to use your TFSA contribution room. While it might not offer anything in terms of dividends, Lightspeed POS can significantly grow your capital through its substantial capital gains.

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Author
adamothman