Canada Revenue Agency: The Worst TFSA Mistake That Will Cost You a Fortune

Description

If you have a Tax-Free Savings Account (TFSA), you can invest in almost anything through your account. The eligible investments include bonds, exchange-traded funds (ETFs), guaranteed investment certificates (GICs), mutual funds, and stocks. Unfortunately, only 49% of Canadians are aware of this TFSA feature, according to a recent **Bank of Montreal** survey.

The same survey results also revealed that cash is the primary investment in the TFSA of 38% of the poll respondents. While it's encouraging to know that Canadians are saving during the pandemic, cash isn't the best investment choice. It's the worst TFSA mistake, and it can cost you a fortune if you continue the practice.

What are you missing?

Since 2009, Canadians have had the opportunity to create wealth through the TFSA. The savings account is the best investment vehicle because of three fundamental features. You'll miss these fantastic features if you don't use a portion of your cash to invest in income-producing assets.

Tax-free money growth

The tax-free money growth feature excites users the most. You can achieve your short-term and long-term financial goals faster if you have income-producing assets in your TFSA. Earnings within the account, whether interest, capital gains, or dividends, are tax-free.

Zero tax penalty on withdrawals

You can withdraw any amount at any time with no tax penalty whatsoever. Any unused contribution room carries over to future years. Regardless of the amount you withdraw, it won't affect your benefits from government programs such as the Canada Child Benefit (CCB) to the Guaranteed Income Supplement (GIS).

The Canada Revenue Agency (CRA) won't be at your back for as long as you don't overcontribute. Monitor your available contribution room to avoid paying a 1% penalty tax monthly on the excess contribution. For 2021, the new contribution limit is $6,000, while the accumulated contribution room is $75,500.

Tax shelter

Your TFSA serves as a tax shelter. If your marginal tax is higher, you effectively pay fewer taxes when you withdraw funds from your TFSA. Retirees can delay withdrawals from their Registered Retirement Savings Plan (RRSP) by prioritizing TFSA withdrawals.

An exciting prospect for TFSA investors

Polaris Infrastructure (TSX:PIF) is an exciting prospect for TFSA investors in 2021. At $17.71 per share, the $278.16 million renewable energy company pays a respectable 4.4% dividend while maintaining a low 49.18% payout ratio. Your $6,000 TFSA contribution will generate $264 in extra income. A cash deposit will yield zero.

Last year, this utility stock endured the COVID-19 shock and rewarded investors with a hefty 53% total return. Likewise, Polaris outperformed the general stock market (+2.17%). The company has been in existence since 1984 and engages in developing and operating geothermal and hydroelectric energy projects in Latin America.

Its geothermal facility in northwest Nicaragua, or the San Jacinto project, has a net capacity of 72 megawatts (MW). Polaris owns the Casita San Cristobal project in the same region, an exploration concession with an expansive area of 100 square kilometres. In Peru, Polaris operates a five MW run-of-river hydro facility and two hydro projects with a combined capacity of nearly 28 MW.

Let your cash work

Canadians are saving money during the pandemic. However, a significant number (38%) is underutilizing their TFSAs. If you have free cash, let the money work for you rather than keeping it idle in your TFSA.

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