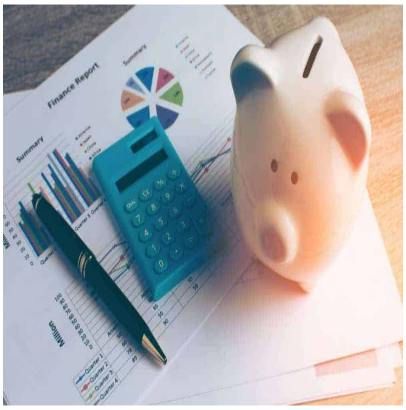

TFSA Investors: Your Guide for 2021

Description

The TFSA was introduced in 2009 to allow all Canadians 18 years of age and over to invest in an investment vehicle where returns are tax exempt. An additional investment of $6,000 can be contributed as of January 1, 2021, for a lifetime total of $75,500.

Be careful not to exceed your contribution limit. You will have to pay hefty penalties if you contribute more than $75,500 to your TFSA. They will represent 1% of any overrun calculated each month. Keep your records up to date, as it's easy to lose track of contributions made if you have TFSAs with multiple financial institutions.

Officially, the annual limit is adjusted for inflation by rounding it up in increments of $500. In other words, if inflation is 2% per year, you would expect the maximum to be $6,500 in four years.

Here are some important points to know about the TFSA.

What investments are eligible?

Permitted investment products are generally the same as those permitted in RRSPs or RESPs:

- Cash
- Mutual funds
- Exchange-traded funds (ETFs)
- Securities (shares listed on a designated stock exchange)
- Guaranteed investment certificates (GICs)
- Bonds
- Certain shares of small business corporations

Investments that are better for you depend on your risk tolerance, your goals, and your time horizon.

Can you withdraw from your TFSA?

It is possible to withdraw some or all of the amounts invested in your TFSA to the extent that the chosen investment allows it.

But be careful. To deposit money back into your TFSA, you will then have to wait until after January 1 of the following year if you do not have enough unused rights. Otherwise, you will be subject to a penalty. In other words, you won't have a problem until you hit the maximum. And unlike an RRSP, a TFSA does not generate any tax on withdrawals, regardless of your salary.

Possible TFSA uses

If the RRSP is generally used to finance retirement, the TFSA is a versatile tool that allows you to carry out a multitude of projects while keeping your earnings tax-sheltered.

You could use your TFSA for an important project like the purchase of a car. That way, you won't have to borrow money and pay interest.

Build an emergency fund is also a good idea. If you run your own business, having a well-funded TFSA can act as a lifeline when your business is in a downturn. And if you have kids, you know how much it costs. If you don't have to use it, you'll have amassed a nice nest egg that can be used for other purposes like your retirement plan.

If you invest for the long term, the stock market can provide you with interesting returns. Buying an ETF that gives you exposure to the TSX, like the **iShares S&P/TSX 60 ETF**, is a simple way to give you exposure to large Canadian companies. This ETF has a five-year CAGR close to 10%.

That's great, but you could have higher returns by investing in individual stocks. **Shopify** (TSX:SHOP)(NYSE:SHOP) is one of those top-performing stocks that you might you want to have more exposure to. Shopify has a five-year CAGR close to 110%, beating the TSX by a wide margin. And buying it in your TFSA will allow you to profit from price appreciation without paying taxes.

While Shopify has surged 185% in 2020, there is still more upside for the e-commerce platform in 2021. Why? The use of the e-commerce platform has increased big time during the pandemic because of the lockdowns. As the pandemic is still not under control and many parts of the country are in lockdown, people will keep shopping online. And that trend should stay, even when the pandemic is behind us, as online shopping is a convenient way to shop. So, I'm confident Shopify can keep delivering strong gains for many years.

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sbchateauneuf