Canada Revenue Agency: 1 Huge TFSA Mistake to Avoid in 2021!

Description

The Tax-Free Savings Account (TFSA) has been a life-changing introduction by the Canadian government. Available since 2009, the cumulative contribution room in the tax-advantaged account has grown to $75,500 with the 2021 TFSA update.

The TFSA has grown increasingly popular among Canadians in recent years. If you can use it properly, the TFSA can be a powerful wealth-building tool that can help you retire far wealthier in the long run. However, many Canadians are making a critical TFSA mistake that is resulting in them failing to make the most of this investment vehicle.

I will discuss the TFSA mistake that you should learn about and avoid in 2021 and how you can make the most of the tax-advantaged account.

Cash as the primary holding in TFSAs

According to a **Bank of Montreal** survey, Canadians put more money into their TFSAs in 2020 despite the financial crisis caused by the global pandemic. The annual report conducted by the bank found that the average amount held by Canadians in TFSAs rose by more than 9% to $30,921 from a year ago.

However, the report also revealed an alarming statistic. It reported that only 49% of TFSA users are aware that they can hold both cash and at least one other type of investment in the account. To make matters worse, the bank found that almost 38% of the TFSA holdings on average are in cash. Using the account to hold cash is a mistake that does not let you fully benefit from the account's tax-advantaged status.

Making better use of your TFSA contribution room

"Savings" is part of the account's name, but the TFSA is so much more than a savings account. By storing cash in the account, you are effectively depriving yourself of the potential that its tax-free status can provide.

Any earnings from assets you hold in your TFSA can grow your account balance without incurring any income taxes. It means the interest earned, capital gains, and any dividends can grow your account balance significantly without letting the Canada Revenue Agency (CRA) touch a single penny for taxes.

Using the contribution room for income-generating assets can give you a greater way to grow your account balance than holding cash.

A Dividend Aristocrat to consider

Allocating some of the TFSA contribution room to reliable dividend-paying stocks like **Telus Corp.** (TSX:T)(NYSE:TU) can help you get more out of the account than holding the equivalent amount in cash. Interest payments can grow your account balance, but today's low interest rates can't provide you with the same growth that a Canadian Dividend Aristocrat like Telus can.

Telus is a terrific asset to consider holding in your TFSA; the stock has a $33.78 billion market capitalization, trading for $26.31 per share at writing. At its current valuation, it offers investors a juicy 4.73% dividend yield. Investing in the stock and holding its shares in your TFSA means that you can grow your account balance through its hefty dividend payouts and any capital gains for the stock.

Allocating the equivalent contribution room to cash will entitle you only to returns from interests that are not even that high. Additionally, Telus is a telecom giant that has been increasing its dividend payouts to investors for the last 16 years. The telecom company has also expanded its reach into internet and TV services. It also has one of the largest subscriber bases in the country for mobile phones.

Foolish takeaway

If you consider the TFSA as an investment tool than a simple savings account, you can get a lot more out of the account. Using the tax-free contribution room to hold income-generating assets can let you grow your wealth much faster than you can with the equivalent amount in cash. Telus could be an excellent way to begin building a portfolio of reliable dividend stocks for your TFSA.

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Date
2025/08/04
Date Created
2021/01/11
Author
adamothman