CRA: 3 TFSA Mistakes to Avoid With Your New $75,500 Limit

Description

The Tax-Free Savings Account (TFSA) is a unique investment tool that helps Canadians meet their financial goals, short-term and long-term. It has been around since 2009, and the contribution room keeps accumulating every year.

With the new $6,000 contribution limit in 2021, anyone who hasn't opened one but is eligible, the available contribution room is now $75,500. If you have that much to invest, all interest, gains or investment income you generate are tax-free. Users who maxed out their limits in 2020 can contribute again to earn more tax-free money.

However, some account holders aren't able to maximize the full benefits of their tax-advantaged TFSA due to three common mistakes. These slip-ups could be costly too. Avoid them so as not to miss out on the opportunities in 2021 and beyond.

Your TFSA is not an ordinary savings account

Your TFSA can house a variety of income-producing assets. Among the eligible investments are bonds, ETFs, GICs, mutual funds, and stocks. Cash is okay, but the TFSA isn't the place to store them. You have to put your money to work to experience tax-free investment growth.

Don't exceed the contribution limit

A user shouldn't be paying any tax at all in a TFSA. Don't contribute more than the limit or available contribution room. The Canada Revenue Agency (CRA) sets an annual yearly, so you must toe the line. Over-contribution results in a 1% penalty per month of the contribution over the ceiling.

It’s not a waste if you fail to max out your limit in 2020. Your unused contribution room carries over to 2021. Assuming you still have $3,000 from last year, your available contribution room this year becomes $9,000. Those who maxed out the limits but withdrew funds can re-contribute this calendar year and make sure it’s within the CRA’s limit.

No tax-exempt status for foreign assets

Your TFSA is a perfect tax shelter, but it has no tax-exempt status when it comes to foreign dividend-paying investments. Foreign dividends are subject to a 15% withholding tax, and the tax is not recoverable. You can only claim a foreign tax credit in a non-registered account.

Ultra-high dividends

The **Toronto Stock Exchange** (TSX) is the marketplace to shop for dividend stocks. **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) should be an attractive option for TFSA users, given the discounted price and superior monthly payouts. At $33.82 per share, the energy stock pays an ultra-high 7.45%.

This $18.6 billion energy infrastructure giant went through a ringer in 2020 on account of lower margins on crude oil and natural gas liquids (NGL). Management also cites the slump in NGL sales volume. Anyhow, the dividends should remain safe as Pembina continues to generate stable cash flow from fee-based sources.

Midstream operators are vital because the world needs oil. While the business nature somehow insulates the company from commodity price risks, revenue decrease during unfavorable economic conditions. Oil prices have been collapsing for more than two decades now, yet Pembina continues to display financial stability. With new projects well in progress, expect further growth in the coming years.

Powerful incentive to save

Canadians have a powerful incentive to save money and earn more in 2021. You can maintain financial wellness in the current recession by using your TFSA to the hilt. However, you must avoid committing the aforementioned costly mistakes to succeed.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/23
Date Created
2021/01/12
Author
cliew