Canada Revenue Agency: 2 Huge Changes to Your TFSA for 2021

Description

The end of the year brings with it much-awaited announcements by the Canada Revenue Agency (CRA). While Canadians are not too keen on most tax-related announcements, the agency also announces updates regarding the Tax-Free Savings Account (TFSA).

The government agency announced two major changes to your TFSA for this year that should excite you.

$6,000 limit increase

The first major update announced by the CRA regarding TFSAs is the 2021 update to the contribution room. This tax-sheltered account has been around since 2009. In this time, the government has consistently increased the contribution limit each year, allowing Canadians to invest more in their TFSAs for greater long-term returns.

Many active TFSA users were excited to see how much the CRA will increase the contribution room. The government agency kept the contribution room increase the same as last year. With the 2021 update, you now have a $6,000 contribution room in the account that you can use to invest.

$75,500 total contribution room

The CRA increases the TFSA contribution room indexed to inflation. The agency rounds off the number to the closest $500, and that is why it remained $6,000 this year. With the 2021 update, the cumulative contribution room in the TFSA has increased to $75,500.

Suppose that you turned 18 when the TFSA was introduced. If you did not contribute to your account since its inception, you can invest a significant amount of money using your TFSA to earn tax-free passive income.

Best way to use the TFSA contribution room

The returns from any asset you store in your TFSA can grow without incurring any income taxes. If you have been looking for a way to generate passive income without letting the CRA take away a huge chunk as income tax, the TFSA can be an excellent investment vehicle for this purpose. Investing in a portfolio of dividend stocks like the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) can provide you with the income you need.

BMO offers the best value proposition for active TFSA users who want passive income and value. The stock took a beating amid the pandemic-fuelled sell-off. Additionally, the bank's greater exposure to oil and gas loans caused significant cash flow problems during 2020. However, BMO is not a bank that you can count out.

The stock has a strong history of paying its shareholders their dividends. It is the oldest publicly-traded Canadian company that has been paying dividends. BMO has a remarkable dividend-paying streak of almost 200 years. The company has seen several periods of economic uncertainty during its dividend streak, but it has never failed to pay its investors.

As the economy recovers and oil prices continue to mend, BMO could provide its investors with significant returns through capital gains and regular dividends.

Foolish takeaway

The TFSA is an excellent investment tool that you can use to achieve various financial goals. Whether you want to create a secondary retirement fund, earn passive income to supplement your active income, or even save enough to buy a house, the account can do it all for you. It is all a matter of matching your investment portfolio to your financial goals.

BMO is an excellent stock that can be a foundation for any type of TFSA portfolio.

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Author
adamothman