CRA: TFSA and RRSP Have 2 Big Updates in 2021

Description

When it comes to investment, most investors are focused on *what* to invest in. They analyze different assets and choose the ones which are most likely to help them meet their investment goals (and fall within their risk-tolerance limits). But another critical element of investing is asset allocation — i.e., *where* you are placing your investments. That's where tax-sheltered accounts come into play.

Both the RRSP and TFSA are powerful investment tools, thanks to their tax-sheltered nature. But they are created and should be used to meet different investment goals. The RRSP, as the name suggests, is best for retirement savings. While the TFSA can be used for that purpose as well, part of it should be set aside for short-term investment goals since you can access your TFSA funds anytime.

Like every new year, 2021 has brought big updates regarding the TFSA and RRSP.

Major TFSA update

The contribution limit for the year 2021 has been announced, and it's the same as it was last year: $6,000. People who have never contributed to their TFSA would now have the total contribution room of $75,500 available, which can be quite a hefty sum. You can invest part of it in a growth stock like **Toromont Industries** (TSX:TIH). The 30-year-old Dividend Aristocrat offers a modest 1.4% yield and an impressive five-year CAGR of 25%.

Just one year's TFSA contributions — i.e., $6,000 — can grow to a sizeable amount of $18,000 in five years at this rate. Toromont's growth has been consistent for almost two decades now. And even though its yield is not a very attractive factor, the payouts will keep growing every year.

Big RRSP update

Unlike TFSA, the RRSP contributions numbers have seen some movements in the digits. For 2021,you can contribute 18% (as usual) or up to $27,830 to your RRSP, whichever is lower. That's a lot of contribution room, and if you can fill it to the brim, you'll also enjoy a significant tax deduction.

One stock you might consider placing in your RRSP is **Northland Power** (TSX:NPI). It's a green energy company that focuses on wind, solar energy, biomass, and natural gas. The company also pays dividends, and the current yield is 2.63%, but a more attractive feature of this company is its stable growth history. Its 10-year CAGR is 17.79%, which can turn a one-time $10,000 investment into a decent $264,000 nest egg in about two decades.

Another reason to consider this stock for the RRSP is its business. The world is shifting rapidly towards green energy sources, which promises a bright future for companies like Northland.

Foolish takeaway

Understanding and knowing the contribution limits is important, so you don't contribute more and face penalties. The contribution room in both accounts is enough to help you grow your savings to a sizeable nest egg, provided that you invest them in the right assets. It's also important to realign your growth and passive-income goals with asset allocation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NPI (Northland Power Inc.)
2. TSX:TIH (Toromont Industries Ltd.)

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