TFSA Announcement: You Can Invest Over $75,000 Now in 2021!

Description

Were you 18 years old or above when the Tax-Free Savings Account (TFSA) was introduced but has never opened one? The TFSA's contribution room is accumulating for 12 years. From 2009 to 2021, the total available contribution room for a TFSA is now $75,500.

Existing users will have a new $6,000 annual contribution limit. If you have that many investible funds or free cash to invest, make use of the tax-advantaged account. All interest, earnings, gains or dividends in a TFSA are 100% tax-free.

Stocks, bonds, exchange-traded funds (ETFs), guaranteed investment certificates (GICs), and mutual funds are the qualified investments in a TFSA. Cash is too, but it's not the place to hold idle money. TFSA balances accumulate faster than ordinary savings accounts because contributions are not tax-deductible.

Unequalled flexibility

Apart from the the tax-free features, a TFSA is unequalled in flexibility. Don't worry about not maxing out your yearly limit. A user who contributed only $4,000 in 2020 can carry forward $2,000 in 2021. This year, the available contribution room will be $8,000 ($2,000 unused plus $6,000 new limit).

You can withdraw funds at any time without incurring penalties whatsoever. Also, you don't lose your contribution room when you withdraw any amount. You can redeposit the following year when the CRA announces the new limit again.

Multi-purpose investment vehicle

The TFSA is best for both short-term and long-term financial goals. Since the compound growth is tax-free, it can help you save faster to purchase a car or make a down payment for a house. Most Canadians use the TFSA and Registered Retirement Savings Plan (RRSP) to save for retirement or build a nest egg.

Fines and penalties

There are rules governing the TFSA, which the Canada Revenue Agency (CRA) enforces. A user can't over-contribute as the CRA charges a penalty tax per month equivalent to 1% of the excess contribution. Refrain from holding foreign investments as there's a corresponding 15% withholding tax on foreign source income. Also, don't carry on a business in your TFSA or else the CRA will tax your earnings.

Fascinating dividend growth streak

Let's assume you're a newbie TFSA investor with a $75,500 available contribution room and equivalent cash. You can invest in a Dividend Aristocrat like **Canadian Utilities** (TSX:CU) that pays a respectable 5.48% dividend. The tax-free income your money will generate annually is $4,137.40.

Canadian Utilities is ideal in a TFSA because it's a regulated utility company. This 94-year-old firm derives 86% of its earnings from regulated sources while the rest comes from long-term contracted assets.

The company engages in electricity generation, transmission, and distribution in Canada (95% of its customer base) and elsewhere. It also delivers integrated energy and industrial water solutions plus related infrastructure solutions. Growth is very much on the horizon.

Over the next three years, management will set in motion the $3.6 billion capital investment plan. Canadian Utilities will further build a globally-diversified portfolio of utility and energy-related infrastructure assets. But one fascinating reason to hold this stock in a TFSA is the 47 consecutive years of dividend increases.

Max your TFSA limit

Whether the available TFSA contribution room is over $75,000 or $6,000, maximize your account if your finances allow. This year might be another challenging year financially. It would be best to have more buffer, especially if it's tax free.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
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