3 TFSA Tips to Remember in 2021

Description

The Canadian government announced that the annual contribution limit for the Tax-Free Savings Account (TFSA) would stay at $6,000 in 2021. This increased the cumulative limit to a whopping $75,500. The TFSA was launched in January 2009. This account provides great flexibility to Canadian investors. Moreover, it gives investors the opportunity to gobble up tax-free capital growth and income.

Today, I want to go over three top TFSA tips that Canadians should remember in 2021. Let's jump in.

Don't leave everything in cash!

Late last year, I'd discussed an interesting trend that had emerged during the COVID-19 pandemic as it relates to Canadian TFSAs. While the economic situation in Canada has deteriorated, savings rates have been bolstered. This may come as no surprise, as leisure activity has been torpedoed by restrictions and lockdowns.

Unfortunately, the increase in extra cash is not being put into action by many investors. This has been a problem since the inception of the TFSA. Many investors simply use these as savings accounts. That should change in 2021.

Canadians with extra savings in 2021 should consider a stock like **Maple Leaf Foods** (TSX:MFI). Shares of Maple Leaf have dropped 9.4% in 2021 as of early afternoon trading on January 29. The stock is still up 1.5% from the prior year. Maple Leaf put together a strong third quarter in 2020 on the back of improved sales in its main protein groups. It achieved total sales growth of 6.2% in Q3 2020.

Shares of Maple Leaf last had an RSI of 29. This puts Maple Leaf in technically oversold territory. TFSA investors should be eager to pick up this promising dividend stock that offers nice value.

Watch out for TFSA overcontributions

All Canadians should look to aggressively contribute to their TFSA and a Registered Retirement

Savings Plan (RRSP). However, they also need to make sure they are not overcontributing. This can be tricky in a TFSA. When you withdraw cash from your TFSA, you need to wait until the next calendar year before the contribution limit will be reset.

For example, let’s say you maxed out your TFSA at $75,500 in early January. Then, needing some cash for a new purchase, you withdrew $5,000 today. You would need to wait until 2022 before you could put that $5,000 back into your TFSA. Otherwise, you will pay a penalty.

Beware of U.S. dividend stocks

The TFSA is a phenomenal growth vehicle, especially for young investors with a long time horizon. However, it is also an effective vehicle for gobbling up income. In the summer of 2020, I’d discussed why TFSA investors should pursue top dividend stocks like **Enbridge** and **Fortis**.

However, Canadians need to be careful if they are eyeballing U.S. dividend stocks for their TFSA. If the U.S.-based stock pays a dividend, the U.S. Internal Revenue Service will apply a withholding tax on those income-yielding stocks that can be as high as 30%. Instead, you should look to target Canadian dividend stocks in your TFSA.

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Date
2025/08/11
Date Created
2021/01/30
Author
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