



Canada Revenue Agency: 80% of You Are Making This Huge TFSA Mistake

Description

Data regarding the Tax-Free Savings Account (TFSA) utilization by users in 2020 are not yet out. However, the 2019 information from the Canada Revenue Agency (CRA) is surprising. Only one in five or 20% of TFSA users maxed out their contributions for the year.

The TFSA is the best investment vehicle there is because of its unique features and flexibility. If the 2020 figures show no improvement, 80% of [Canadians are underutilizing the account](#) and missing out on the extraordinary tax-free advantages. This year is another opportunity to earn tax-free income from the \$6,000 contribution limit.

12 years of incredible benefits

The TFSA is now in its 12th year. If you were 18 years old in 2009 and haven't opened an account yet, the [cumulative contribution room has ballooned to \\$75,500](#) in 2021. You can park cash and other investments such as bonds, stocks, mutual funds, GICs, and ETFs in a TFSA.

Since money growth and all earnings within a TFSA are tax-free, cash shouldn't be your primary investment. It would be best to hold some cash and income-producing assets to derive the tax-advantaged account's full benefits. Even TFSA withdrawals will not merit a penalty tax, except when you overcontribute.

No maturity or age limit

You can catch up if you missed maximizing the limit, as unused contribution rooms carry over to the next calendar year. Retirees are advised to contribute to the TFSA, since it has no maturity like the Registered Retirement Savings Plan (RRSP). A TFSA can serve as a tax shelter or tax-saving tool for retired individuals.

The TFSA also offers estate planning benefits. You can pass assets tax-free to your heirs, which you can't do if they were in a non-registered account. You can withdraw anytime if you need money for

emergencies.

Among the reliable passive-income options for TFSA users is **Atco** ([TSX:ACO.X](#)). The \$4.44 billion company from Calgary is Alberta's largest natural gas distribution company. It also provides services and business solutions globally.

You can purchase this utility stock at \$38.60 per share and hold it in your TFSA. The dividend yield is 4.65%, so a \$6,000 investment will produce \$279 in passive income. Assuming you're a new user with an available TFSA contribution room of \$75,500, or the maximum, the tax-free earning is \$3,510.75.

Atco is ideal for risk-averse investors, because the business model is low risk and enduring. The company's asset base consists of power plants, electric power lines, and hydrocarbon storage facilities. Earnings are likewise regulated, and therefore, cash flows are predictable and stable.

The key takeaway for Atco is that the operations are large scale, while the scope is global. Market analysts see a potential 32% appreciation to \$51 in the next 12 months.

Not a simple savings account

A TFSA is far from being a simple savings account. You don't make the most of tax-free compounding if you only use it to store cash. It's a personal account that shelters your earnings from taxes. The federal government encourages users to invest money and earn a return. Perhaps more Canadians will max out their limits in 2021, given that the household savings rate is increasing since the pandemic.

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