3 Things You Should NOT Do With Your TFSA

Description

Significant tax savings await Tax-Free Savings Account (TFSA) users in Canada. The investment vehicle is the best by far if you want to meet short-term and long-term financial goals. Your biggest upside is the tax-free money growth that could run for decades or a lifetime.

The Canadian government introduced the TFSA in 2009 to inspire the citizenry to save money. Congratulations if you have an account today. You can start the journey toward building a fortune. The younger age group should make the same make move to achieve financial independence sooner than later.

Unfortunately, not all account holders derive the maximum benefits of their TFSAs. They could be missing out on them, consciously or unconsciously. Still, it's worth repeating the three things you shouldn't do with your TFSA.

1. Keeping mostly cash

While the phrase "cash is king" is true, the belief that it's valuable in a TFSA is false. If cash makes up the bulk of your TFSA, you're committing a common mistake. Your TFSA is no ordinary savings account. Even if you fill it up with cash, you defeat the primary purpose of the tax-advantaged account.

Returns from cash are virtually negligible if not zero. Thus, you have nothing to derive, whether tax-free interest or dividends or tax savings. You have the potential to earn more if your TFSA contributions are in the form of income-producing assets like dividend stocks.

2. Exceeding the limit

The Canada Revenue Agency (CRA) announces the yearly contribution limit. If the limit for 2021 is $6,000, be mindful of the boundary. You give the CRA an opening to tax your TFSA if you were to over-contribute. The 1% penalty tax per month of the excess amount is a needless tax expense. Besides, the TFSA should generally be tax-free all the way.

3. Investing in foreign assets

Avoid international investments because dividends from foreign stocks are subject to a 15% withholding tax. If you want global diversification, hold assets from abroad in a Registered Retirement Savings Plan (RRSP). Foreign dividends are tax-free in an RRSP, although you still taxes when you withdraw the fund. In a TFSA, even withdrawals, regardless of amount, are tax-exempt.

Blue-chip asset in a TFSA

Make the most of your TFSA by investing some of your cash in blue-chip assets. The **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) can be the anchor stock. Most TFSA investors regard this bank stock as among the buy-and-hold assets. Canada's fifth-largest bank has been sharing a portion of its earnings to shareholders since 1868.

Your $6,000 TFSA can buy you about 48 CIBC shares ($124.16 per share). Since the bank stock pays a 4.7% dividend, your money will produce $282 in tax-free income. Remember, the income could be higher if you have an unused TFSA contribution. Your available room will be higher if you add it to the 2021 limit.

The Big Five banks in Canada lead the **TSX** in terms of dividend longevity. CIBC maintains a conservative payout ratio (less than 65%), so the dividends should be sustainable. Later, you can accumulate more CIBC shares or diversify and invest in other sectors.

Take control

The TFSA is available to help Canadians ensure their financial well-being in retirement. Avoid the mistakes above and take control of your future economic destiny.

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2. Dividend Stocks
3. Investing

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