TFSA Investors: 3 Big Mistakes You Need to Avoid In 2021

Description

The Tax-Free Savings Account (TFSA) is a popular registered account among Canadians. The TFSA is flexible and allows you to withdraw any income in the form of dividends, interests, or capital gains without paying a single dollar in tax to the Canada Revenue Agency (CRA).

However, TFSA users should avoid the below mistakes that might attract a penalty from the CRA, in order to maximize their returns.

default watermark

Overcontribution

One of the most common mistakes TFSA investors make is over-contribution. The Canada Revenue Agency discloses the annual limit for each year and users need to ensure the contributions are within these limits.

The penalty for overcontribution is 1% of the excess contribution per month. The TFSA contribution limit for 2021 is $6,000 and in case you contribute $8,000 to the account this year, you will pay a penalty of $80 each month to the CRA.

Investing in U.S. dividend stocks

The Canada Revenue Agency allows Canadian investors to hold U.S. stocks in their TFSA. There is no limit on the number of foreign exchange investments that you can hold in these registered accounts as long as they are qualified instruments.

However, in case you hold U.S.-based dividend stocks in your TFSA, the CRA will levy a 15% tax on your dividend income. It is advisable to hold such stocks in your RRSP (Registered Retirement Savings Plan) and benefit from tax-sheltered returns.

Frequent trading

The TFSA is an investment and savings account and should not be used for day trading. The CRA conducts random audits on suspicious accounts and violators will be levied with stiff sanctions.

In case, you are involved in day trading activities, the earnings generated in your TFSA will be treated as business income and will no longer be tax-free.

Hold growth stocks in your TFSA

The TFSA is an ideal account to hold quality growth stocks such as **Lightspeed POS** (TSX:LSPD). Growth stocks have the potential to increase your wealth at an exponential rate and Lightspeed is one of the top Canadian stocks right now.

LSPD stock has already returned 380% since the company went public in March 2019. It means a $6,000 investment in Lightspeed stock soon after its IPO would be worth close to $30,000 today.

The company provides software solutions and support systems to small and medium companies primarily in the retail and hospitality segment. Its cloud-based platform allows customers to sell across multiple channels, increase customer engagement, manage operations and also accept payments.

default watermark

In fiscal 2020, LSPD's GTV or gross transaction volume stood at $22.3 billion which was significantly higher than its 2019 GTV of $14.5 billion and three times higher compared to the 2017 GTV of $7.1 billion. The company's top line has also grown at a compound annual growth rate of 41% to $120.6 million in 2021 from $42.6 million in 2017.

LSPD has a positive net dollar retention rate, which suggests customers are spending more on its cloud-based platform lowering acquisition costs. The average GTV per customer was $600,000 in fiscal 2020 and no single customer accounted for over 1% of total sales.

Bay Street analysts expect Lightspeed sales to rise by 73.7% to $210 million in fiscal 2021 and by 72% to US$361 million in fiscal 2022.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:LSPD (Lightspeed Commerce)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/07/31
Date Created
2021/04/09
Author
araghunath

default watermark

default watermark