



3 TFSA Mistakes That Are Remarkably Easy to Make

Description

The Tax-Free Savings Account (TFSA) is incomparable and more popular than the Registered Retirement Savings Plan (RRSP). Canadians use it as a conduit to meet financial goals or [amass a fortune over time](#). Any TFSA account holder would be thrilled that balances grow faster because money growth is tax-free.

Also, unlike the RRSP, there's no age limit to contributing to your TFSA. You can save and invest past 71. But despite the simple mechanics, some users commit easy-to-make mistakes. The following are the miscues every user must avoid to ensure proper maintenance of the unique investment vehicle.

1. Unaware of contribution limits

The Canada Revenue Agency (CRA) will enforce the rules, particularly on contribution limits. Thus, every user must not over-contribute, or else the tax agency will impose a penalty tax equivalent to 1% per month of the excess contribution. This slip-up is costly because ideally, you shouldn't be paying taxes at all in your TFSA.

Your TFSA isn't an everyday bank account. While all withdrawals are tax-free, you can't withdraw and deposit money in the same year, assuming you maxed out your annual limit. Withdraw the excess contribution immediately, then wait for the contribution limit next year.

2. Opening a second TFSA

Canadians over the age of 18 can open more than one TFSA. However, it doesn't make sense to have multiple accounts. The contribution limit will not double or multiply. Your total contributions to all accounts are the same as they would if you have only one account. Your best strategy is to maximize your limits every year if finances allow.

3. Holding more cash

Storing more cash in a TFSA isn't advisable. You lose the propensity to earn a meaningful amount if you hold idle cash in your TFSA. Remember, all interest, gains, or dividends earned in the account are tax-exempt. Thus, the logical advice is to use your contributions to invest in income-producing assets. You can get the most of your TFSA if you hold bonds, mutual funds, GICs, ETFs, and stocks instead of unproductive cash.

Dividend investing

Seasoned TFSA users prefer dividend stocks over other assets. Besides the potential capital gain, they [earn recurring cash flow](#) from dividends. You can reinvest the dividends to buy or accumulate more shares and benefit from the power of compounding.

Timbercreek Financial ([TSX:TF](#)), for example, trades at \$9.50 per share at writing. If you haven't used your \$6,000 TFSA contribution limit, you can purchase nearly 632 shares of the mortgage investment company to partake of the high 7.27% dividend. Your money will generate \$436.20 in tax-free income.

The \$769.29 million non-bank lender specializes in extending short-term structured financial solutions. Its clients are primarily commercial real estate investors who offer their multi-residential, office, and retail buildings as collateral or loan security. In Q1 2021 (quarter ended March 31, 2021), net income grew by 103% versus Q1 2020.

Timbercreek maintains a conservative portfolio risk. About 90.3% of its mortgage investment portfolio are first mortgages, while 86.7% of the investments are income-generating properties. Moreover, the stock is up 13.5% year-to-date.

No equal

Nonpareil is the adjective that describes something as having no match or equal. The TFSA is a one-of-a-kind investment account because of its flexibility and versatility. You won't maximize its full benefits if you let the rules or salient features skip your memory.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TF (Timbercreek Financial Corporation)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
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