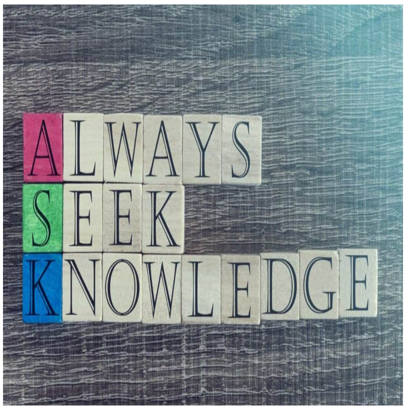

3 Huge TFSA Mistakes to Avoid With the New $81,500 Limit

Description

The accumulated Tax-Free Savings Account (TFSA) contribution will increase to $81,500 in 2022. New users who were 18 in 2009 and will open a TFSA next year will have that much room to play catch up and earn substantial tax-free income. However, whether you're an old or new account holder, you must follow the governing rules of the investment account.

Some users aren't mindful of the rules that they pay taxes on their TFSAs. The following are huge mistakes you must avoid and ensure zero taxes.

1. Going beyond CRA's limit

The Canada Revenue Agency (CRA) sets an annual contribution limit, and a user must not overcontribute. Likewise, if your available contribution room is the maximum, you can't go beyond $81,500. In 2022, the yearly limit ($6,000) is the same as the last three years. The monthly penalty tax is 1% of the excess contribution.

Most TFSA users invest in dividend stocks for higher returns, and others reinvest the dividends for faster balance compounding. For example, your $6,000 limit can purchase 154 shares of **Capital Power** (TSX:CPX). The utility stock is an eligible investment in a TFSA.

At $38.91 per share, the dividend yield is a juicy 5.63%. Your money will produce $337.80 in tax-free passive income. The $4,588.45 dividend earnings from an $81,500 investment (2,094 shares) are also tax-exempt.

The $4.42 billion independent power producer holds a leadership position in Alberta's power market. Its Whitla Wind project is the largest wind facility in the province. Besides the growing renewables portfolio, Capital Power will partner with energy pipeline giant Enbridge to develop a carbon capture and storage (CCS) project. Once complete, it will capture up to three million tons of CO_2 emissions annually.

2. Carrying a business

The CRA prohibits carrying a business in your TFSA. For short-term gains, it's tempting to buy and sell growth stocks like **Whitecap Resources** (TSX:WCP). This year, this energy stock is among TSX's top performers with its 45.43% year-to-date gain. Based on analysts' forecasts, the current share price of $6.87 could appreciate by 59.4% in 12 months.

However, you shouldn't buy and sell WCP to capture the upside potential as the price appreciates. The CRA looks into the frequency of trading and holding period. If a user violates the rule, the tax agency will consider all earnings or profits as business income and, therefore, as taxable.

The $4.85 billion oil and gas company is also a dividend payer (3.93%) like Capital Power. You can hold the stock in your TFSA to earn recurring income every quarter and not pay taxes at all. Due to rising crude prices, Whitecap is back to generating profits and significant funds flow in 2021.

3. Investing in foreign assets

TFSA users can diversify but it would be best to hold Canadian stocks from different sectors to spread the risks. Dividends from foreign or U.S. stocks are subject to a 15% withholding tax. Thus, your potential earnings will diminish because of the tax component. All earnings, profits, and gains from Capital Power or Whitecap are 100% tax-free.

Maximize your TFSA

With the Bank of Canada's assessment of an extended inflationary period, Canadians should maximize their TFSA more in 2022. Besides the tax-free income, you create a hedge against inflation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:WCP (Whitecap Resources Inc.)

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