2 Huge TFSA Investing Mistakes to Avoid

Description

The TFSA is one of the most powerful allies a Canadian investor can have. It's flexible, accessible, and potentially powerful enough to make you a millionaire (*if* you have the proper risk appetite), even with its limited contribution room so far. But like anything else in the world, it has its rules and limitations. And if you start bending the TFSA rules to bypass those limitations, you may call the wrath of the CRA and turn your TFSA into a liability.

Stretching the contribution limit too far

You are allowed to contribute exactly $6,000 to your TFSA in the year 2022. If you put in more (and you've contributed the full amount every year since the TFSA's inception), you will be subject to the overcontribution penalty, which kicks in almost right away. You will start losing 1% of the overcontributed amount each month till it's absorbed by the future contribution room. So, if you put in $10,000 in 2022, the overcontribution will be canceled out by the 2023 contribution limit.

But if you put a much more considerable amount in your TFSA, exceeding the yearly contribution limit (like $50,000), not only will the penalty be much higher ($500 in the first month), but it will also go on for years before the contribution room has caught up to the amount.

And it doesn't make sense because you can make up for the limitation of the contribution limit by investing in the proper growth stocks, like **Xebec Adsorption** (TSX:XBC), a stock that grew over 9,000% in the five years preceding the 2020 crash. And considering the brutal correction phase the stock is going through, which has pushed the share price down by over 84%, it might again be cheap enough to be ready for another four-digit growth phase.

The stock is currently trading for $1.7 per share, and it can grow your capital by five times, just reaching its 2021 peak of $11.1 per share.

Blurring the line between investing and trading

Buying and selling stocks and other allowed assets in your TFSA can earn the ire of the CRA, which classifies day trading as business, not investing. So, if it marks your investing activity down as trading, you will lose the tax-free privilege altogether, and all the income in the account will be taxed as per the rate you land at.

So, sticking with long-term investments like **National Bank of Canada** (TSX:NA), which is both a reliable and stable Dividend Aristocrat (currently offering a 3.3% yield) *and* the best growth stock among the Big Six. If it can maintain its 10-year CAGR for another decade, it could double the capital you invest in it in less than a decade.

The bank is just one example of securities that you should hold long term in your TFSA to get the full advantage.

Foolish takeaway

Your TFSA can be a powerful asset if you don't bend or break the rules and if you use your TFSA funds to invest in the right assets and create a healthy, diversified portfolio. If you have a fine balance between your risk tolerance and your investment goals, you can build a sizeable nest egg while staying within the limitations and regulations of the TFSA.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)
2. TSX:XBC (Xebec Adsorption Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothman
2. kduncombe

Category

1. Investing

Date
2025/07/20
Date Created
2022/02/19
Author
adamothman