1 Top TFSA Mistake Millions of Canadians are Making

Description

The Tax-Free Savings Account (TFSA) offers plenty of benefits that make it an attractive investment account for Canadians eligible to open one. The account has become wildly popular over the years. From offering tax-free wealth growth on assets held in the account to tax-free withdrawals, what isn't there to love about having such a tax-advantaged investment account?

Despite all the benefits TFSA investing offers, millions of Canadians have been making the cardinal mistake of treating their accounts merely to hold cash. Ipsos recently conducted a survey for the **Royal Bank of Canada** and found that 42% of TFSA holders use the contribution room in their TFSAs to hold cash.

There is nothing wrong with holding cash in a TFSA. However, it is a massive opportunity cost if you realize the full potential of using the TFSA to hold assets besides cash. Any contributions to your TFSA are made through after-tax dollars. It means that any profits you earn on assets held in the account can grow without incurring income tax.

Using the contribution room to buy and hold income-generating assets can provide you with far better returns than holding cash and relying on interest rates to grow your wealth. According to Statistics Canada, a growing number of Canadians have started using their TFSA, but a significant portion of them are not making the most of the benefits it offers.

Tax-free dividend income and wealth growth

Dividend investing is one of the most popular ways for Canadians to enjoy tax-free wealth growth in their TFSAs. Buying and holding dividend stocks in a TFSA means that you can top up your account balance with cash through shareholder dividends.

Even better, you can accelerate your wealth growth by using dividend reinvestment programs to purchase more shares of stock you own in a TFSA and unlock the power of compounding.

Allocating a portion of your TFSA contribution room to buy and hold reliable dividend stocks can help you become far wealthier than by using the same to hold cash. Though choosing any dividend stock without thinking things through might not be a good long-term strategy.

It is important to conduct your due diligence to invest in shares of reliable dividend-paying companies.

A Canadian Dividend Aristocrat to consider

Canadian Dividend Aristocrats are dividend stocks with a history of raising shareholder dividends for consecutive years. Using some of the contribution room to invest in a Canadian Dividend Aristocrat's shares could provide a more reliable way to grow your TFSA's balance and keep pace with rising inflation.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is one of the top Canadian Dividend Aristocrats you could consider for this purpose. Fortis stock boasts a 48-year dividend growth streak and looks well-positioned to continue delivering its shareholders their dividends.

Fortis is a $28.9 billion market capitalization utility holdings company. It owns and operates several electricity and natural gas utility businesses across Canada, the US, Central America, and the Caribbean.

The company earns most of its income through highly rate-regulated and long-term contracted assets. This means that the company's cash flows are predictable. The essential nature of the service it provides virtually guarantees stable revenues. So the management can comfortably fund its growing shareholder dividends and capital programs.

Foolish takeaway

Fortis stock trades for $60.43 per share at writing and boasts a juicy 3.54% dividend yield. The reliability of its dividend payouts could make it a strong candidate as a long-term investment you can buy and hold in your TFSA.

A large, stable utility company can be an ideal asset to use as the starting point for a dividend-income portfolio in your TFSA. You can generate significant passive income through its payouts to grow your wealth without incurring income taxes.

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