3 Common TFSA Mistakes Canadians Should Avoid in 2022

Description

The Canadian federal government introduced the TFSA, or Tax-Free Savings Account, in 2009. This registered account soon gained popularity across the country, with more than 15 million Canadians holding at least one TFSA.

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One of the most flexible accounts in Canada, you can make contributions and withdrawals towards the TFSA throughout the year. Further, any withdrawals associated with the account are exempt from Canada Revenue Agency taxes.

You can leverage the benefits of the TFSA to make a down payment for your mortgage, pay for your children's tuition or even start saving for retirement.

How much is the TFSA contribution limit for 2022?

While the TFSA is very flexible, there are certain rules associated with the same. For example, there is an annual contribution limit for the TFSA that stands at $6,000 for 2022. But any unused contribution room from previous years can also be carried forward.

So, the TFSA contribution limit for 2021 was also $6,000. If you deposited just $3,000 in your TFSA last year, the total contribution limit for 2022 will increase to $9,000.

Let's now look at the common TFSA mistakes committed by Canadians and how to best avoid them.

Holding cash in the TFSA

Yes, the TFSA has the words *savings account* in the title, but you can hold investments ranging from bonds, stocks, mutual funds, and exchange-traded funds in the account. Canadians should avoid holding cash in the TFSA, as it is equivalent to a depreciating asset. With inflation rates near multi-year highs, it's imperative to put your savings to better use rather than earning a minimal interest rate.

Borrowing to invest

While the equity market has created massive wealth for investors in the past, it is among the riskiest asset classes globally. Never borrow to invest in stocks due to the short-term volatility associated with equities.

Historically, stocks have outpaced the bond markets, which makes the “borrowing-to-invest” strategy seem like a no-brainer. But as we have seen in the past year, during an economic downturn and amid challenging macro conditions, stocks can grossly underperform and can even lose 80% of their total value within a few months.

TFSA over contributions

Some Canadians make additional contributions to the TFSA, as they are unaware of the rules associated with the account. For instance, if you deposit $6,000 in the TFSA at the start of the year and withdraw $4,000 in June, you need to wait for the next year to begin to benefit from the increased contribution room.

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The Canada Revenue Agency charges you a penalty of 1% per month for any additional amount deposited in the TFSA.

Buy and hold Shopify stock in your TFSA

One of the worst-performing Canadian stocks this year is e-commerce giant **Shopify** (TSX:SHOP)(NYSE:SHOP). It was the largest Canadian company in terms of market cap last November and has since lost 81% of its market value, allowing you to buy the dip.

Shopify allows merchants to set up an online store, manage marketing campaigns, fulfill orders, and process payments. So, merchants can easily create and build an online presence instead of setting up an account on third-party marketplaces like Amazon.

Just before Shopify went public in 2015, the company had around 162,000 merchants. It ended 2022 with a merchant base of over two million, allowing Shopify to increase revenue from US$205 million in 2015 to US$4.6 billion last year.

SHOP stock continues to trade at a premium and is valued at nine times forward sales. But it provides investors with a massive growth opportunity making Shopify a top bet for your TFSA right now.

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