Canada Revenue Agency: 1 TFSA Mistake That Could Get You in Deep Trouble

Description

The TFSA is a powerful investment vehicle that few Canadians know how to use correctly. It's not just a place to save a few bucks in interest from a tax-free savings account; it's a means to grow one's wealth at a rate such that one can *get ahead*.

In an era of rock-bottom interest rates, savings accounts, bonds, GICs, and other securities that are "free from risk" are no longer a means to get ahead.

Heck, if you're a holder of longer-term bonds with your TFSA, you could stand to fall behind, and your nest egg could be positioned to decay, even though the Canada Revenue Agency (CRA) isn't entitled to take its share of the profits.

On the other side of the spectrum, there are Canadians who are breaking some of the rules of the TFSA. I'm talking about those who overcontribute to their TFSAs on any given year, either unknowingly or not.

You should be aware that there's a fixed amount you're allowed to contribute to your TFSA in any given year. Currently, the annual contribution limit is at $6,000, and it may fluctuate based on who's prime minister, or steadily increase to keep up with inflation or as a kind gesture from the Federal Government to further incentivize saving and investing for one's future.

If you're one of many Canadians who hasn't hit the cumulative contribution ceiling yet, you may have wiggle room. Still, if you're not sure, it's in your best interest to check with the CRA to see precisely how much you're able to contribute in any given year.

Overcontributions are not only subject to taxation, but they're also subject to a TFSA overcontribution penalty. And far too many Canadians are unknowingly guilty of overcontributing and are being placed in the penalty box as a result of something that could have been easily avoided.

Mistakes happen, but the taxman couldn't care less, and you will be facing the wrath of the CRA for lacking due diligence, regardless of what excuses you may have.

So, if you have any doubts at all about how much you’re able to contribute, check with the CRA, either through phone or their online platform.

What if you’re a hands-off investor who only systematically purchased high-yielding ETFs for your TFSA like **BMO Canadian High Dividend Covered Call ETF** with its 6.4% yield? Do such large distributions that end up in your TFSA count against your cumulative contribution room? What about withdrawals?

It can be easy to lose track of how much room you’re able to have, especially if you’ve been moving cash out while securities place cash in your TFSA. Fortunately, if you’re not one to withdraw from your TFSA, large distributions don’t count if the security is held within your TFSA.

Many Canadians lose track over time, and that’s why the CRA makes it easy to check how much you’re able to contribute in any given year. So, if you’ve been making withdrawals, even of distributions, it can’t hurt to double-check before you’re ready to move more cash or securities into your TFSA. You could avoid harsh penalties that could snowball over time and potentially derail your retirement goals.

Now that the TFSA is turning 11, it’s a good time to check to make sure you’re not going to go offside with your 2020 contribution. Heck, you may even discover you’ve got more contribution room than you expected and allow you to buy more shares of your favourite investments like BMO’s ETF!

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