CRA WARNING: 3 Ways to Keep Your TFSA and RRSP out of Trouble

Description

TFSA and RRSP are excellent tax-saving tools to assist Canadians in building a nest egg. Although earnings, interest, and dividends are tax-sheltered, it is your lookout to keep all gains tax-free.

The Canadian Revenue Agency (CRA) can penalize or tax both TFSA and RRSP users for various lapses. You should be able to minimize your tax burden and avoid being hounded by the CRA.

Invest within tax-sheltered accounts

Pizza Pizza (TSX:PZA) is a good investment option if you want to kickstart your retirement savings. This $236 million company is a franchised Canadian pizza quick-service restaurant. Since commencing operations in 1967, Pizza is now a trusted brand and leader in the food service industry.

The company operates 750 restaurants and takes pride in serving quality food with natural ingredients. Pizza offers profitable opportunities to people with an entrepreneurial mindset.

With a minimum $100,000 initial investment, you can have the right to use the Pizza Pizza brand and operate a franchise. Over the last three years, the overall business performance has been steady with a consistent profit every year.

Besides being affordable ($9.59 per share), the stock pays a high dividend of 9.15%. If you invest $6,000 in this stock within a TFSA, you will have $6,549 after one year. You can withdraw either the full amount or the gains only with no tax penalty.

Do not over contribute

Over-contribution is a common mistake of TFSA and RRSP users. If you're go over the contribution limits, you will have to pay over-contribution tax, penalties, and arrears interest based on the CRA's assessment.

For the TFSA, the CRA calculates the tax at 1% per month times the over-contribution amount. You are also required to report the over-contribution and file an RC243 TFSA Return. In some instances, the CRA files cases against users who abuse the TFSA.

The CRA can also tax you if you over-contribute to an RRSP. Anything above your deduction limit plus $2,000 is already an over-contribution. The CRA will charge you a 1% penalty for each month that you are over the limit.

Choose the best fit

Mullen (TSX:MTL) is a dividend stock you can add to your TFSA and RRSP to maximize the tax benefits. This $894.16 million company provides a wide range of specialized transportation and related services to the oil and natural gas industry in Western Canada.

Likewise, it is one of the leading suppliers of trucking and logistics services in Canada. Mullen pays a generous dividend of 7.07%, and with its high yield, you can instantly boost your after-tax income.

Assuming your savings is equivalent to the cumulative contribution limit of the TFSA as of 2019 or $63,500, your annual gain is $4,489.25 or $374.12 monthly. You can withdraw the entire amount tax-free in your TFSA.

If you have Mullen in your RRSP and you're a high or moderate-income earner, you can build your tax-sheltered retirement savings faster. Although you get to enjoy tax-deferred growth, you'll have to pay the tax due when you eventually take out the funds.

Complementing accounts

The TFSA and RRSP are complementary accounts because either one will help you achieve your ultimate goal. What is important is that you choose dividend stocks like Pizza Pizza and Mullen to grow your retirement savings.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MTL (Mullen Group Ltd.)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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1. Business Insider
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