



Canada Revenue Agency: 1 Big TFSA Mistake Can Land You in Hot Water

Description

Your TFSA is arguably the most essential investment account that you have access to. Many Canadians have been able to build significant investments in the short time that the TFSA has been available since 2009. There have even been reports of some TFSAs that have reached over [\\$1,000,000](#) already.

However, depending on how you've been building up those significant investments, you might land yourself in hot water with the [Canada Revenue Agency](#) (CRA).

Your TFSA gains could be classified as business income

If you think that your TFSA can be used to day trade to get rich quickly, think again. The CRA is watching you like a hawk, and if you're frequently trading in your TFSA, you could be in for a rude awakening.

If your TFSA is unusually high, this will raise red flags with the CRA. The CRA could then take a look into the transaction history of your TFSA. If you make a frequent amount of trades, then your TFSA income could be classified as business income instead of investment income.

The change means that your TFSA loses its tax-free status, and you'll have to pay taxes on any income you've earned. The rules are not very clear cut as to exactly how many trades will trigger this rule. It will be evaluated on a case-by-case basis, so it's better to err on the side of caution.

Pick good stocks and hold them

Don't risk frequently trading in your TFSA. Day trading is extremely risky anyways, and only a tiny percentage of people are successful. It's better to go the tried-and-true Warren Buffett way of picking good stocks and holding them.

It's hard to go wrong with investing in stock such as **BMO** ([TSX:BMO](#))([NYSE:BMO](#)), which has paid

dividends for 190 years in a row. Dividend reliability is a good indicator of company strength.

BMO is also no longer lagging in commercial banking in the U.S. and North America. In 2018, there was a 25% increase in the U.S. business segment for BMO. The 10-fold growth in U.S. earnings since 2010 indicates BMO's cross-border capabilities.

In addition to the expansion into new markets, BMO is scaling its technology investment. The bank is leveraging its transformative technology architecture, data, and digital capabilities to deliver excellent business value for its customers.

BMO's portfolio of businesses is its vital strength. The business mix enables the bank to deliver consistent and sustainable growth regardless of market conditions.

Conclusion

Best of all are BMO's stock returns and dividends. Had you invested \$10,000 in BMO 10 years ago and reinvested the dividends, it would be worth \$28,615 today in your TFSA. You can imagine what the gains could be in 20 or 30 years, or as you're approaching retirement age.

It's often the more straightforward approach that will work the best. Don't waste your time and energy trading dozens of times a year in your TFSA just to get taxed anyway on your gains. Buy good, reliable stocks like BMO and hold them.

CATEGORY

1. Bank Stocks
2. Investing

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