



## TFSA Investors: 3 Costly Mistakes to Avoid

### Description

The Tax-Free Savings Account (TFSA) is an incredible tool for you to [build significant wealth](#). However, these three costly mistakes can cripple your wealth behind the scenes if you're not careful.

### Transferring an investment to a TFSA without considering the tax consequences

It's common practice for investors to transfer money or investments to their TFSA when January 1 rolls around because they want to maximize their tax-free compounding as soon as possible!

The amount you contribute/transfer to your TFSA will depend on the market value of the investment at the time.

However, when you transfer an investment from a non-registered account to your TFSA at a loss, the loss will not be deductible. In other words, it can't be used to offset capital gains.

If the investment has a gain, it will be taxable. So, if your investment appreciated 50%, the entire 50% gain will be taxable for that year.

So, remember to consider the tax consequences before transferring in-kind to your TFSA. You don't want any unintended tax consequences when tax reporting time comes.

### Speculating

Some investors aim for aggressive growth, which could work. For example, early investors of cannabis stocks could have made a lot of money. However, this year, these speculative stocks [stopped cooperating](#).

In fact, they've been selling at such high multiples with no earnings that it only took some bad news to drag the stocks down.

In any case, buying stocks with no earnings or cash flow is speculating and it'll only be a matter of time before investors lose money doing that.

When you make speculative bets in your TFSA, you essentially lose the contribution room if you sold at a loss or the investment sits at a big loss with no hope of recovering.

It follows that you lose the tax-free compounding for the lost money (as well as tax-free compounding on the decent returns that could have been made in safer investments).

So, it's even worse than taking a loss in a non-registered (for which losses can offset gains) or other registered accounts (for which withdrawals are taxed).

## Over contributing

If your TFSA has a contribution room of \$6,000, you can only contribute \$6,000 this year; any withdrawals you make can only add to your contribution room in the following year.

If you over contribute to your TFSA, you'll need to pay a penalty of 1% every month on the excess amount.

For example, if you over contributed \$6,000 to your TFSA on June 20, 2019, and only realized and withdrew the amount now, you'll need to pay the penalty for six months, which equates to \$360! You may also be penalized for 100% of the amount that you earn on the excess contribution!

Stay hungry. Stay Foolish.

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### Date

2025/07/31

### Date Created

2019/11/23

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