Canada Revenue Agency: 1 TFSA Tip That Could Save You Thousands

Description

In early 2019, we hit the 10-year anniversary of the Tax-Free Savings Account (TFSA). Over the course of this year, I'd discussed key mistakes that investors need to avoid when utilizing this dynamic and flexible investment vehicle.

Earlier this month, I'd explained why using your TFSA solely as a savings account can be a waste of its potential, especially for young investors. Investing in low-risk, income-yielding equities like **Hydro One** is far more rewarding in the long run.

The TFSA has generated some controversy as well. Some investors have managed to rack up hundreds of thousands in tax-free gains due to some savvy and high-risk moves. Many investors have also won big in their TFSA during the boom in cannabis stocks in the back half of this decade. The use of the TFSA by institutional investors has occasionally drawn the attention of the Canada Revenue Agency (CRA).

It is safe to say that investors want to avoid CRA attention, unless they are getting confirmation on their annual filing or the notification of a tax refund. I want to discuss a key tip that will help investors avoid the ire of the CRA going forward.

Watch out for overcontributions

As it stands today, the cumulative contribution room for a TFSA is $63,500. That is assuming that an investor was eligible for the account since its inception in January 2009. If not, younger investors need to move up from the calendar year they were eligible to determine their total contribution room.

Overcontributions are more common than investors may think. Though this may stem from an innocent mistake, it can be costly in the long term. When an individual exceeds their TFSA contribution limit for the year, the "TFSA excess amount" is subject to a penalty tax of 1% per month. This is multiplied by the overcontribution amount for each month if you are over the limit.

You are required to report the overcontribution on a special return, the "RC243 Tax-Free Savings

Account (TFSA) Return." If this filing is late, the penalty is 5% of the balance owing.

A recent case cited in the *Financial Post* saw a taxpayer inadvertently contribute $40,000 to his TFSA in 2016. They were subsequently hit with a $2,370 overcontribution tax, and a penalty of $118 for failure to file the special return form. The Tax Court judge urged leniency in this case of human error, but the cancellation of the tax can only be done at the discretion of the CRA.

Investors should be vigilant and check their accounts often

We have all been guilty of human error in the past, but we can also take steps to avoid costly situations like these. If investors are registered with the CRA online, they can login and check their contribution room. Not everyone is registered through the CRA's online portal, but there are other options. Investors should keep up to date with their financial institution. Sometimes 15 minutes out of your day can save you thousands of dollars down the line.

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