Canada Revenue Agency: Hate Taxes? Then Avoid These 2 Glaring TFSA Mistakes

Description

The Canada Revenue Agency (CRA) is a stickler for the rules. Since collecting taxes is the agency's preoccupation, the CRA runs after violators, including people with TFSAs. You can't skirt being penalized due to costly mistakes made while using your investment account.

Don't make it a business

The TFSA serves a particular purpose. Canadians have the opportunity to save up for the future through the TFSA. You purchase interest-bearing or dividend-paying assets and place them within your account. Whatever interest, income, or gains you derive from your investments are tax-free.

As an example, **TORC** is a perfect equity investment in your TFSA. This energy stock pays a high 7.77% dividend. But because of greed, some TFSA users abuse the use of the account. Sometimes it could lead to court cases.

Depending on the company's performance, the stock price can either spike or dip. With the price swings, there is the temptation to capitalize on the price appreciation to maximize returns in addition to the dividend payouts.

Avoid the temptation because the CRA checks on the frequency of trading within the TFSA. If you're using the TFSA to trade TORC frequently, it constitutes a violation. Once the CRA determines your guilt, all income from your trading activities will be treated as taxable business income.

Keep track of contribution limits

TFSA users often have shares of **Laurentian Bank of Canada** in their portfolios. This bank stock is a generous dividend payer with its 5.65% yield. In your eagerness to grow your TFSA balance as quickly as possible, you might forget to monitor your contribution limit.

Over contributing to the TFSA will result to penalty tax that will negate the tax-free nature of the account. Every year, there is a prescribed TFSA contribution limit. The total contribution limit since 2009 is $63,500, and $6,000 is the maximum limit in 2019.

Remember that overcontribution is not permissible. The CRA will penalize you a 1%-per-month penalty tax on the excess amount that you contribute to your TFSA. Before paying the penalty, you will go through the hassle of filing a special TFSA return that you will send to the CRA.

Also, you'll need to remove the excess contribution to show the CRA that you're correcting the mistake. It will save you money and realize the full gains of investing in Laurentian Bank.

Contain your zealousness to prevent over contributing. You can allocate a certain amount yearly, to the extent of the annual contribution limit, to purchase the bank stock.

Aim for zero taxes

Frequent trading and overcontribution are the hindrances to optimizing the tax-free benefits of the TFSA. You can purchase as many shares of TORC and Laurentian Bank to grow your TFSA balance.

TORC is one of the top holdings of the Canada Pension Plan Investment Board (CPPIB), while Laurentian Bank is a dividend all-star because of its 11-year dividend streak.

Try to not to defeat the purpose of your TFSA and diminish your overall returns due to the two costly mistakes. Moving forward, aim for zero taxes and avoid paying unnecessary penalty taxes. Vigilance has its rewards.

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cliew