



Canada Revenue Agency: 5 TFSA “Crimes” to Avoid!

Description

Your Tax-Free Savings Account (TFSA) can protect your investment from the wealth-dampening effects of taxation. Within the TFSA, any realized capital gains and the dividends paid out are a no-go for the [Canada Revenue Agency \(CRA\)](#) if you play by the rules.

If you skate offside with your TFSA, however, either knowingly or not, the CRA still has the right to hit you with a tax bill on investments within your TFSA, along with potential penalties, depending on the TFSA crime you may be found guilty of.

The goal of this piece is not to alarm you. It's to encourage you to play by the TFSA rules, so you don't become like many Canadians who've been dealt a surprise tax bill on their supposedly tax-free TFSA investments.

Many Canadians may be unaware that the “tax-free” part of TFSA is only in effect if you play by the rules. So, it's your responsibility to understand the rules to ensure that no CRA surprises come your way in the future.

On the surface, the TFSA seems pretty straightforward.

As an investment vehicle, the TFSA offers more flexibility relative to other accounts (like the RRSP), with fewer strings attached and withdrawal rules that are arguably easier to understand for most Canadians. But that doesn't mean you shouldn't brush up on the rules of TFSA usage to ensure that your TFSA is not at risk of taxation or penalties given how simple it is to check that you're not guilty of said TFSA crimes.

The TFSA is over 10 years old now, and if you're like many Canadians who haven't brushed up on the rules since they first contributed over a decade ago, it's worth your time to verify that your TFSA is still in good standing according to the CRA!

Here's a quick list of five TFSA “crimes” that you can make sure you're not breaking.

TFSA overcontribution

It's pretty easy to lose track of how much you're able to contribute in any given year if you haven't taken tabs on your contributions or if you've got two or more TFSAs with different banks. The current annual contribution is \$6,000 per year, but it's subject to change, so it's vital to stay informed before you move funds into your TFSA for the given year.

For instance, the TFSA dollar limit was at \$10,000 in 2015 but was reverted to \$5,500 in the following year and given a \$500 boost to an even \$6,000 in 2019. The 2016 contribution limit reversion was a political move, and some Canadians may have been unknowingly guilty of overcontributing that year if they didn't get the memo from Justin Trudeau's Liberals.

The [CRA portal](#) makes it easy to check how much room you have in a given year, so there's no excuse not to check given year-over-year TFSA dollar limit has the potential to fluctuate.

Conducting “business” trading within your TFSA

Some Canadians have already passed the \$1 million TFSA milestone, including a lucky former trader who did so with penny stocks and warrants several years ago. The trader's luck quickly reversed when the CRA came knocking on their door.

So, if you're one those Canadians who's made a killing by trading **Canopy Growth** or any other pot stocks and have bolted past the \$1 million TFSA milestone, you may be ticketed by the CRA for speeding, even though you've followed all the other rules.

Conducting “full-time” trading activities could leave your TFSA vulnerable to taxation. So, if you do trade for a living, you may want to keep such activities outside your TFSA; otherwise, you may have some explaining to do down the road.

Prematurely re-contributing to your TFSA

If you withdraw cash from your TFSA, you can re-contribute it, but make sure you do so in the following year if you're against the limit, otherwise the premature re-contribution could be considered an overcontribution.

Not paying penalties

If you've been hit with an overcontribution penalty, or something of the sort, pay it (or speak to a CRA representative) and don't just sweep it under the carpet. Such penalties could snowball!

Not contributing

Finally, I believe that not contributing at all is the greatest TFSA crime of all. Although the CRA won't penalize you for leaving it empty, you'll be robbing yourself!

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Date

2025/08/14

Date Created

2019/12/03

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