DANGER: 1 Mistake That Can Get Your TFSA Taxed by the Canada Revenue Agency!

Description

Many Canadians think their Tax-Free Savings Account (TFSA) is 100% off limits for the Canada Revenue Agency (CRA) if they don't go over their contribution limit.

The TFSA was meant to help everyday Canadians build wealth that's free from the dampening effects of taxation (or dividends and capital gains) and was not intended to be a free lunch for those who make a living by trading stocks professionally. As you may have heard, those who surpassed the $1 million TFSA milestone via trading activities were under CRA scrutiny, even though they've followed all the other TFSA rules.

If you use your TFSA to make extra income through trading, you could still have your gains taxed if the CRA deems that you've been conducting a "full-time trading business" or if you've simply made a killing off penny stocks, marijuana stocks, derivatives, leveraged ETFs, or any other sort of instrument in your spare time.

So, if you trade a considerable amount of speculative instruments that could have the capacity to make you wealthy (even if it's a part-time hobby), it may be in your best interest to keep such activities outside your TFSA, so gains from such trades aren't taking up space that could have been used for long-term investments that are known for a fact to be free from taxation.

Excessive trading within your TFSA is a lose-lose proposition.

If your speculative trades make you rich, you could, in theory, be slapped with a hefty tax bill from the CRA. And if your trades go south, you won't be able to offset your capital gains in your TFSA or any of your other accounts.

Somewhat frequent swing trades are fine for your TFSA, but if you're between a full- and part-time trader, you may have to answer to the CRA, as they can tax your TFSA at their discretion. So, if you've been making money too fast in your TFSA, you can expect a speeding ticket!

How do you maximize growth in your TFSA without trading?

If you went all-in on a multi-bagger like **Shopify** within your TFSA and have held on tight over the last few years, your gains won't be taxed by CRA, even though your TFSA may be worth hundreds of thousands (or even more than a million).

By buying and holding such hyper-growth securities for the long term, you can amp up the growth in your TFSA without having to worry about the taxman looking to get a share of your profits. So, if you're one of many young investors who are keen on getting your TFSA to the million-dollar mark as quickly as possible, forget about trading and look to hold hyper-growth names instead.

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