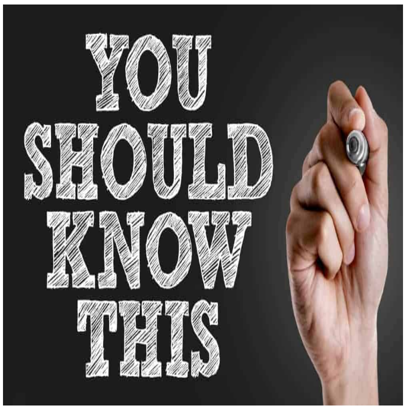

Canada Revenue Agency: 1 Reason Why the CRA Could Take Your TFSA to Court

Description

The TFSA is an outstanding vehicle to grow your savings or build a retirement fund. All earnings from the account are tax-free, which is advantageous as you get older and closer to the sunset years.

However, the last thing you would want is to face the Canada Revenue Agency (CRA) in a legal tussle. The agency can take your TFSA to court with one grievous error. Conducting a business of trading stocks is a no-no. The CRA can slap you with a significant TFSA tax penalty.

Trading stocks

For purposes of illustration, let us use **Peyto** (TSX:PEY) and **Whitecap** (TSX:WCP) as examples. Both energy stocks are dividend titans. The former pays an 8.3% dividend, while the latter yields 8.16%. The common denominator is the affordable price, which is $2.78 and $4.10, respectively.

Peyto is a $458.35 million energy firm that is in the business of exploring, developing, and producing oil and natural gas and natural gas liquids in Deep Basin, Alberta.

The stock is underperforming, and so far this year, it is down 58.67%. If you're a spendthrift investor, you will find the price dirt cheap. You'll purchase the stock in exchange for the high dividend payout.

Currently, the company is struggling, although it's a well-managed and a low-cost producer. The stock hasn't bounced back, because NGL prices remain depressed. Analysts are finding it difficult to make forecasts given the unpredictable crude oil prices.

Anyhow, once the situation improves, this energy stocks could be an excellent long-term investment prospect. In the meantime, Peyto is playing it safe by significantly reducing production. It can produce tonnes of gas but wouldn't sell them at sea-bed prices. Next year might be a different but better story for the stock.

Whitecap is similarly situated. This $1.68 billion oil and gas company has been around for many years now. TFSA investors have made a killing from the high dividend of this energy stock. However, the price remains stagnant for most of the year.

As of the nine months ended September 30, 2019, the company is showing $712 negative retained earnings, which is an 8.37% plunge versus the same period in 2018. Anyhow, Whitecap is riding the storm, as the revenue drop is outpacing the expense.

During the same period, the company was able to accumulate $3.5 million in cash after consolidating its working capital assets in British Columbia, northwest Alberta, southwest Saskatchewan, and west central Saskatchewan. Consolidation is a means to raise operating efficiency.

CRA court cases

The erratic price movements of Peyto and Whitecap are tempting for speculative investors. There is a tendency to buy and sell the stocks for higher gains but shorter holding periods.

Generally, the TFSA is a passive trading account. The CRA can catch you using your account for business activities through the frequency of transactions or trading. Alarm bells will ring when there is an unusually high turnover rate.

As a TFSA investor, you have to play it by the book and not abuse its use. The court will rule your supposedly tax-free gains from frequent trading as business income. Therefore, all your earnings become taxable.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:WCP (Whitecap Resources Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
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