Canada Revenue Agency: 1 TFSA and 1 RRSP Mistake to Avoid Like the Plague

Description

The TFSA and the RRSP are the most popular investment accounts of Canadians. The Canada Revenue Agency (CRA), however, is the least popular agency to TFSA and RRSP users. You'll get in trouble with the CRA if you improperly manage either account. You could end up paying taxes if you fail to comply with the rules.

Excess contribution

An excess contribution is a frequent violation of TFSA users. The CRA began auditing TFSAs in 2011. At the end of December 2015, there were 12.7 million TFSA users. The CRA sent notices to less than 1% or 20,000 individuals for over-contribution.

Cineplex (TSX:CGX) is an example of a good dividend play to hold in your TFSA. This $1.6 billion entertainment and media company pays a 7.12% dividend. With such a high yield, your TFSA balance can swell in a short period.

A $10,000 investment in CGX today can earn for you $712 annually. However, if you have already maxed out your cumulative contribution room up until 2018 ($57,500), you can only put in another $6,000 this year, for a total contribution limit of $63,500. To put in the whole $10,000 would result in an over-contribution of $4,000.

Any excess amount in your TFSA will be subject to a 1% per month penalty tax. In this example of a $4,000 over-contribution in a given year, you would be paying $40 per month to the CRA for as long as the excess amount remained in your TFSA.

Cineplex is an iconic brand in Canada and one of the Dividend Aristocrats on the TSX. This operator of 162 theatres across the country has a dividend growth streak of eight years, with a 4.05% dividend growth rate over the last five.

Given the stock's 7.18% dividend yield, a $50,000 investment would result in an annual income of $3,590.00. Look at diversifying this investment with other stocks, so you're not too concentrated in just one stock.

Expect Cineplex to make waves next year with “Junxion,” a first-of-its-kind concept for moviegoers. It combines movie theatre, dining destination, and entertainment complex – all in one place. The brand new complex will open in late 2020.

Unreported withdrawal

There are also tax consequences if you withdraw funds from an RRSP. You must report the withdrawal as income when you file your annual income tax return.

If you also make withdrawals the next year but fail to report it for a second time, the CRA may assess you a penalty for repeated failure to report income. The penalty is equivalent to 10% of the unreported amount for the second or subsequent failure.

Corby (TSX:CSW.A) is attractive to both RRSP users and frugal investors. This alcoholic beverage stock is cheaper than Cineplex, but pays a high 5.6% dividend. Likewise, this $447.3 million company is a consumer goods aristocrat with a dividend growth streak record of eight years. Over the last five years, dividend growth is 4.98%.

From a dividend perspective, Corby’s payout is safe in the near term. The payout ratio, however, is 97.78%, which leaves a little financial cushion for unexpected circumstances. If the yield can remain constant, your retirement savings can double in less than 13 years.

Corby’s revenue and income over the last four years are consistent but flat. If both top and bottom lines grow, the company can continue to pay out a high percentage of its profits. On a year-to-date basis, the stock is down 11.9%, although the last quarter is its perennial peak season.

Full compliance

You won’t get in trouble with the CRA if you comply with the TFSA and RRSP rules fully. Your earnings from stocks like Cineplex and Corby will remain intact too.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)
2. TSX:CSW.A (Corby Spirit and Wine Limited)

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1. Business Insider
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cliew