Canada Revenue Agency: 1 TFSA Mistake That Could Land You in Deep Trouble

Description

Canadians have the perfect tool to hit long-term financial goals. The Tax-Free Savings Account (TFSA) remains popular. Based on the latest statistics released by the Canada Revenue Agency (CRA), Canadians held a total of $276.7 billion in their TFSAs at the end of the 2017 contribution year.

The beauty of the TFSA is that you can grow your money tax-free, and any withdrawals won't incur taxes as well. However, there are errors you can commit that could land you in trouble with the CRA. As much as possible, you should avoid locking horns with the tax agency.

Full-time trading is prohibited

A TFSA user is in deep trouble if the CRA determines that you're earning huge profits within your TFSA due to excessive or frequent trading. The practice runs counter to the TFSA-specific benefits.

To stress a point, the price movements of stocks like **Seven Generations** (TSX:VII) and **BlackBerry** (TSX:BB)(NYSE:BB) are sometimes erratic. However, you are advised not to take advantage of the price swings and attempt to make short-term gains by conducting full-time trading.

With Seven Generations, you don't have to do frequent trading. The shares of this $2.9 billion oil and gas E&P is the third-largest equity holding of the Canada Pension Plan Investment Board (CPPIB). There's no reason to capitalize on the spikes and dips of the stock.

So far, Seven Generations is down 23.5% going into 2020. Analysts covering the stock, however, are recommending a buy rating. They are forecasting the price to climb by as much as 117% in the next 12 months.

Despite the general weakness in the energy sector, the company expects to realize an increase of 44.7% in 2019 from the previous year. For the next five years, the annual growth estimate is a colossal 33.55%. No wonder the CPPIB keeps the stock in its long-term portfolio.

BlackBerry is starting to turn the corner after reporting stronger-than-expected third-quarter revenue and adjusted earnings recently. On December 20, 2019, this tech stock jumped by 12.3%, although it's still down 13.8% year to date.

Analysts are bullish, as they see BlackBerry rising in 2020 and rebounding by 67% at best. The optimism stems from the surge in earnings. The company used to be a renowned phone maker until competition ran them over.

Today, BlackBerry is focusing on enterprise software. The $280 million in revenue for the quarter soundly beat the consensus estimate of $265 million, according to FactSet. BlackBerry chairman and CEO John Chen acknowledged the "sequential growth in revenue across all its software businesses."

More significantly, he said that the company's "pipeline is growing." The disappointing second-quarter results were an offshoot of the retooling of the sales personnel. In 2020, expect BlackBerry to push further into cybersecurity business, which should be the growth driver in the coming years.

Use the TFSA properly

Invest in Seven Generations and BlackBerry to maximize your TFSA. But be warned of the penalties the CRA might impose should you carry a full-time stock trading business. If the agency deems your earnings to be business income, you must pay the corresponding taxes and lose the tax-free benefits of your TFSA.

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