Canada Revenue Agency: This TFSA Tip Could Save You Over $100,000 in Taxes

Description

If you're one of many Canadians who haven't looked at the simple ruleset of using your Tax-Free Savings Account (TFSA), you may be leaving big money on the table without even knowing it. The TFSA is a tax-free investment account, but if you skate offside (knowingly or not), you could be subject to hefty financial penalties on top of a tax bill.

Your TFSA is a powerful wealth-creating tool, but it's crucial to remember that it's not a "free-for-all account," where you can overcontribute or conduct frequent moonshot trades with the hopes of outwitting the Canada Revenue Agency (CRA). The CRA is always watching, and if you think you'll get away with an overcontribution you "accidentally" made seven years ago, odds are, you won't. You'll be subject to larger penalties to account for interest (and other fines) when the CRA finally calls you out.

With that in mind, it's worth it to do your research to ensure you're not guilty of a common TFSA crime. And if you are guilty of such a crime like overcontributing, it's vital to correct the error ASAP to avoid snowballing financial penalties.

Such common TFSA crimes as overcontribution and "business trading within a TFSA" will cause the CRA to come knocking.

However, there are other lesser-known TFSA crimes that only stand to cheat *you* out of money, and the CRA won't ever tell you about such issues because frankly, they couldn't care less if you're cheating yourself and will only ever contact you if you're cheating them.

Unfortunately, the "self-cheating" TFSA crime I'm about to bring to your attention could go unnoticed indefinitely, leaving tens (or even hundreds) of thousands of dollars on the table over the course of decades.

I'm speaking of investing in foreign income-producing securities that are subject to foreign withholding taxes, an insidious tax that could erode your TFSA wealth without you even knowing it. Depending on the foreign country, your distributions, coupons, and dividends will be sliced by some percentage (it's

15% for U.S. income), and you'll never be able to get it back.

Unlike the Registered Retirement Savings Plan (RRSP), the TFSA isn't exempt from withholding taxes, so one must ensure that foreign income-paying securities are either kept to a minimum in a TFSA or are held in another account (preferably a non-registered one, so you can take advantage of foreign tax credits).

If your TFSA relies on foreign sources of income, you could be paying a tonne of unnecessary foreign taxes just because you didn't inform yourself — a very harsh penalty, indeed.

Let's say the entirely of your $150,000 TFSA is invested in a U.S. company like **AT&T**, which pays a 5.3% yield; $1,192.50 (or 15% of the $7,950 in annual income you'll receive from the investment) will go into Uncle Sam's pocket, and you'll never be able to recover any of it.

So, in the example, nearly $1.2K in TFSA wealth will be lost in just a single year by overweighting oneself foreign dividend stocks. As you keep contributing and reinvesting what remains of your dividends, you would have lost a tonne of wealth (possibly $100k or more) over the years and decades.

And sadly, Uncle Sam (or any other foreign tax authority) doesn't give refunds to Canadians who lose big money in foreign withholding taxes.

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