Canada Revenue Agency: 1 Error That Can Wipe Out Gains in Your TFSA

Description

Toward the end of 2019, I discussed mistakes that investors need to avoid in their Tax-Free Savings Accounts. The maximum contribution room has expanded to $6,000 in 2020, which gives investors even more flexibility in this highly useful registered account. However, sometimes in pursuit of higher income, investors can get burnt. Let's explore look at how and what to do instead.

Holding foreign investments that produce income

Canadian investors may be tempted by dividend stocks on foreign exchanges. Take some of the indices in the U.S., as an example. Stocks that qualify as dividend kings – posting at least 50 consecutive years of dividend growth – are ripe for the picking south of the border. Equities like **Lowe's Companies**, **Altria Group**, and **Coca-Cola** all belong to this elite group. Income investors on the hunt for big yields may be tempted by stocks like **Adams Express** and **Washington Prime Group** that come close to offering a 30% dividend yield.

Unfortunately, Canadian investors who hold U.S. stocks in their TFSA for income may be making a critical error. An RRSP . If an investor receives dividends in their RRSP, which is considered a retirement savings plan under the *Income Tax Act,* from a country that shares a tax treaty with Canada as the U.S. does, then that income is free of withholding tax. However, a TFSA does not share that same status. This means that foreign dividends in a TFSA will be subject to withholding tax.

Because of this, investors are better off holding these kinds of stocks in an RRSP or a non-registered investment account. For those who are looking for income in their TFSA, there are high-quality dividend stocks available on the S&P/TSX Composite Index with long histories of dividend growth.

2 TSX-listed dividend stocks to target for your TFSA

Fortis may not be a dividend king quite yet, but it is one of the few TSX-listed dividend stocks that comes close. Fortis is a St. John's-based utility that has achieved 46 consecutive years of dividend growth. The mark was reached after it hiked its quarterly dividend payment 6.1% year over year to

$0.4775 in September 2019. This represents an annual yield of 3.5% at the time of this writing. A historically low interest rate environment has been great for utilities like Fortis, and there is good reason to count on this continuing in the 2020s.

Bank stocks offer a nice balance of capital growth and income. When it comes to the latter, **Canadian Imperial Bank of Commerce** stands in elite company. CIBC may be the fifth largest of the Big 6 Canadian banks, but its dividend packs a wallop. The bank last increased its quarterly dividend to $1.44 per share. This represents a strong 5.3% yield as of early afternoon trading on January 13. Shares of CIBC also boast a favourable price-to-earnings ratio of 9.6 and a price-to-book value of 1.3.

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