Canada Revenue Agency: Avoid the CRA Taxing Your New 2020 $6,000 TFSA

Description

For Canadian investors, the Tax-Free Savings Account (TFSA) is the best possible investment vehicle when it comes to achieving their goals. Whether you want to accumulate substantial wealth for a secondary retirement fund, or you want to earn an active income through dividends, the TFSA can help you do it all.

The tax-free nature of the TFSA is the most attractive feature of the account. It allows you to save a lot of money that you would otherwise pay through various taxes to the Canadian government. Of course, many Canadians make the mistake of thinking that the Canada Revenue Agency (CRA) will leave you and your TFSA alone, no matter how you use it.

As amazing as the TFSA is, it does have limitations, and there are certain situations where you can end up having to pay taxes on the earnings in your TFSA.

I am going to discuss some common mistakes that can lead to you incurring taxes and how to avoid them. I will also discuss the **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) stock as a possible buy-and-hold investment for this year's additional $6,000 contribution room in your TFSA.

Contributing too much

A lot of Canadians make the mistake of contributing too much to their TFSAs. There is a maximum limit assigned to everyone's TFSA, which increases every year after they turn 18. As of 2020, the maximum cumulative contribution room stands at $69,500, assuming you were 18 when the TFSA first came into being.

As long as your contributions remain within the limit, you will not be liable to pay taxes. For any amount exceeding the contribution limit, you will incur 1% every month until you withdraw the excess amount from the account.

Make sure you keep track of your TFSA contributions and never go over the contribution limit.

U.S. dividends

If you are an investor interested in companies that pay U.S. dividends, the TFSA's tax-free status does not protect your earnings from taxes. Holding stocks with U.S. dividend earnings can make you liable to pay a non-residents' withholding tax on the U.S. dividend income in your TFSA.

Other than the hefty 15% tax, you cannot claim the tax credit for U.S. dividends when you file Canadian tax returns. A Registered Retirement Savings Plan (RRSP) is a better alternative for buy-and-hold U.S. dividend-paying stocks.

Day trading

The TFSA was designed to encourage long-term saving for Canadians. There is a reason why it's called the Tax-Free *Savings* Account and not the tax-free *trading* account. You might get the bright idea of profiting from the tax-exempt status of the TFSA when you trade stocks in the stock market.

While you can use the TFSA to trade stocks, you should avoid heavy trading in it. If there is a lot of activity in your TFSA, the CRA will take notice. Investors who make several trades in their TFSAs every year and who show other signs of investing as a business may have their revenue treated as enterprise revenue.

Using your 2020 contribution room

If you want to continue paying zero taxes on the earnings in your TFSA, you need to consider a stock that gives you substantial value. The company needs to pay you dividends here in Canada, and it has to be healthy enough for you to hold long term. To this end, Enbridge comes is a likely candidate to invest the additional $6,000 contribution room in 2020.

Trading for $52.97 per share, the ENB stock is offering dividends at a yield of 6.12% at the time of writing. Enbridge is a top mid-stream company in North America. The $107.21 billion market capitalization company is a Canadian Dividend Aristocrat with a 19-year dividend growth streak. It is a good company that entails low risk in a relatively volatile sector, making it an ideal stock to consider.

Foolish takeaway

Enbridge's role as a transporter of commodities rather than a producer gives it insulation from the volatile commodity prices that affect other companies in the energy sector. The share price is up almost 500% from the time the company started its dividend growth streak.

The company is healthy, and it continues to grow. I think allocating the additional $6,000 contribution room in your TFSA to the ENB stock could be an ideal way to go.

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