TFSA Investors: Avoid This Mistake to Keep the CRA Away

Description

When it comes to investing in the TFSA, for the most part, the rules are pretty straightforward.

Most investors know there is no tax on any income from registered investments such as dividend income or capital gains income; there are also no taxes on withdrawals from your TFSA.

There are, however, some mistakes that are easy to make and could catch you off guard that will end up costing you, and if you aren't aware of what you're getting yourself into, the tax bill you find yourself with could be sky high.

If investors use the TFSA for what the CRA deems as trading purposes rather than investing, the CRA considers that to be business income. Under current Canadian tax rules, earning business income in your TFSA is prohibited.

This could cause the CRA to audit your TFSA investments and potentially come after you for taxes owed on 100% of the income you earned.

How you can steer clear of the CRA

Instead, use the TFSA for what was meant for, establishing and building a long-term, diversified portfolio of quality stocks such as **Nutrien** (TSX:NTR)(NYSE:NTR) that you can contribute to and grow over time, tax free.

Nutrien is a prime example of a great long-term stock for a number of reasons. First and most importantly, it's a massive $33 billion company that operates in an ever-growing agricultural industry that is crucial to human survival.

Not only is the world population always growing, but so has the trend to eat healthier and more natural food, causing major demand growth for the entire agriculture industry, which Nutrien serves.

While the business could potentially face short-term headwinds every now and then, just like any other industry, over the long term, demand in the industry will always be growing, making Nutrien a great business to invest in.

In addition, the company is one of the largest crop nutrient companies in the world, giving it a major footprint and a huge competitive advantage.

Despite being a massive company and operating in a growing industry, if it wasn't a well-run company, it wouldn't make for a great investment.

That is not the case, though, as Nutrien has proven, since it came to be with the merger between Agrium and Potash Corp, that its ability to grow its revenue and its margins is second to none.

The company has been able to generate a roughly 19% return on equity over the last 12 months, and it has an impressive earnings before interest, taxes, depreciation, and amortization (EBITDA) margin of 20%.

Plus, you can get exposure today at an enterprise value-to-EBITDA ratio of just nine times and a P/B of less than 1.1 times — both extremely cheap valuations for such a quality blue-chip stock.

It also pays out a dividend, which yields roughly 4.1% and is returning cash to shareholders through share buybacks as well.

All in all, Nutrien is a great company, it's in a great industry, and it's a leader with a dominant position, giving it all the qualities of a perfect long-term hold.

The company is a solid income stock, that will continue to grow and is trading well below fair value, making it a triple-threat stock trading at its 52-week low.

This discount can't last forever, so gaining exposure to this high-quality, blue-chip stock today, which can make up a core portion of your portfolio, looks like an attractive opportunity.

Bottom line

If you stick to long-term investing as opposed to rapid trading, not only will your chances of success be much larger, but you can also guarantee you won't run into any problems from the CRA.

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