Canada Revenue Agency: Don't Fall Into a 2020 TFSA Tax Trap

Description

The Tax-Free Savings Account (TFSA) is fantastic because it offers tax-sheltered growth, tax-free withdrawals, and savings flexibility. All gains are 100% tax-exempt except when you fall into a TFSA tax trap.

In life and death, however, two big TFSA tax traps will prompt the Canada Revenue Agency (CRA) to levy taxes on you or your loved ones.

Excess contributions

The returns from the TFSA are breathtaking. An investment of $20,000, for example, in **First National** (TSX:FN), which pays a 5.12% dividend, can produce a $1,024 tax-free income yearly.

This $2.29 billion originator and underwriter of mortgages for residential and commercial clients is ideal for the TFSA. First National is among the latest names to join the Dividend Aristocrat list. Likewise, this non-traditional mortgage only bank became one due to its eight-year dividend streak.

Clients obtaining single-family residential, multi-unit residential, and commercial mortgages from alternative mortgage companies like First National are growing. It has a service advantage because of its quick turnaround time. Customers can transact through a mortgage broker distribution channel.

First National also has the best software in town that enables clients to apply or do business online. After three consecutive years of profitable operations, expect First National to report strong full-year 2019 earnings again on February 25, 2020.

In case you've maxed out your TFSA until 2019, you're only allowed to contribute $6,000 — the new 2020 contribution limit. If you inadvertently invest $20,000 worth of FN shares, your over-contribution is $14,000.

The CRA will charge you 1% tax of the excess per month or $140. There's no wiggle room, as the 1% tax applies for the particular month, even if you withdraw the excess during the same month.

Naming a spouse a beneficiary

You can preserve its tax-free status if you intend to leave your TFSA to your spouse. Your successor-holder, not a beneficiary, becomes the new owner of your TFSA when you're gone. Hence, name your spouse as successor-holder instead of a beneficiary.

To illustrate, let's assume that you've invested $10,000 in **TC Energy** (TSX:TRP)(NYSE:TRP) and have been holding the stock for 10 years now. Your money has grown to $32,204.23, including reinvestment of dividends.

I do not doubt that TC Energy is a core holding of would-be retirees. This energy is an income generator, as shown by its 19-year dividend-growth streak. Its yield today is 4.15%.

TC Energy has a market capitalization of $68 billion. As an infrastructure company, it operates a network of natural gas pipelines. A significant volume of natural gas passes through TC Energy's 92,600 kilometres of pipelines.

The end users consist of power generation plants, industrial facilities, and local distribution companies, among others. TC channels some natural gas to interconnecting power pipelines.

The major segments are the Canadian Natural Gas Pipelines and U.S. Natural Gas Pipelines with the Mexico Natural Gas Pipelines, Liquids Pipelines, and Power and Storage completing TC Energy's total operations.

A beneficiary is liable to pay taxes on the income from TC Energy between the time of your death until the TFSA is thoroughly exhausted.

No tax burden

Guarantee zero taxes on gains from First National and TC Energy by sticking to the TFSA contribution limits and appointing your spouse a successor-holder. A TFSA tax shouldn't be a burden in life and death.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:FN (First National Financial Corporation)
3. TSX:TRP (TC Energy Corporation)

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