Canada Revenue Agency: 2 TFSA Mistakes to Avoid Big Trouble With the CRA

Description

The rules governing the Tax-Free Savings Account (TFSA) are clear and direct to the point. Proper management of the account should help you achieve your financial goals. However, if you're not careful, you might get in big trouble with the Canada Revenue Agency (CRA).

Day trading for business income

The biggest blunder you can ever commit when managing the TFSA is to engage in day trading. Using your TFSA to buy and sell stocks is strictly prohibited. If you indulge in frequent trading, you'll experience not only the ire, but also the wrath of the CRA.

In short, the CRA will not allow you to have your cake and eat it too. A case in point is an energy stock like **Seven Generations** (TSX:VII). You can buy this $2.3 billion oil and gas company stock for a discounted sum of $6.85 per share.

Because the growth potential of Seven Generations is strong, the temptation to trade the stock for higher gains is strong too. If ever you trade the stock to fulfill your objective, don't try. The CRA conducts an audit and can trace TFSA users doing frequent trading.

If it's discovered that you're abusing the TFSA, the CRA will treat all gains as business income. Rather than tax-free earnings, you will end up with taxable income. In extreme cases, the CRA can bring the matter to court.

Seven Generations is ideal for the TFSA, although it's a non-dividend payer. For your information, the company is the third-largest holding of the Canada Pension Plan Investment Board (CPPIB). The CPPIB invests in Canadian equities that can deliver the maximum returns to the CPP fund.

In Seven Generations, you have a low supply cost energy producer. It uses long-reach horizontal drilling to produce low-supply cost resources of natural gas, condensate, and natural gas liquids.

The company owns the large-scale, liquids-rich Montney natural gas property (500,000 net acres and

100 kilometres).

Over-contribution

Over-contributing can also get you into a bit of trouble with the CRA. Perhaps your over-excitement to ride on the momentum of Seven Generations could lead to losing track of your TFSA contribution limits.

When you over-contribute to your TFSA, the CRA will penalize you 1% penalty tax monthly. To solve the problem and avoid paying the unnecessary 1% penalty tax per month, withdraw or remove the excess contribution.

Exciting investment option

The price of Seven Generations has fallen sharply, and the stock is down 19.13% year to date. But if you check the analysts' projections, the price today is a good entry point.

Seven Generations has a $1.1 billion capital investment budget in 2020, where $1 billion is for sustaining capital and $100 million for high-return, value-enhancing projects, and a reduced delineation program.

Analysts are forecasting this stock to climb to $16.50, which represents a 140.88% increase from the current price. Also, the annual growth estimate for the next five years is 33.55%.

The most-discussed aspects of the TFSA are the withdrawal and contribution rules.

If you abide by them and avoid the things that can get you in trouble with the CRA, you'll be in a position to earn the highest tax-free profit from Seven Generations.

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