



TFSA Investors: Beware of the 12% Penalty Tax on Your TFSA

Description

The Tax-Free Savings Account (TFSA) is one of the great wonders in Canada, but the name is a misnomer. It's far from being a savings account. Since this registered account allows for tax-free gains, the Canada Revenue Agency (CRA) expects responsible users to pay "zero" tax.

However, you can still be accountable to pay the CRA a minimum of 1% to a maximum of 12% penalty in [a tax-advantaged account](#). Absurd, isn't it? Either it's deliberate over-contribution or ignorance of contribution limits, the CRA mete penalties. So, beware and know the TFSA rules.

If you overcontribute to your TFSA, the CRA will assess you a 1% penalty on your excess contribution every month until you withdraw the excess. The penalty can rise to 12% if you wait one year before removing the amount.

Basket of investments

The TFSA is a basket where you can put bonds, GICs, mutual funds, or stocks. Usually, dividend stocks like **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)) are the top investment choices. TFSA [balances can swell faster](#) through dividend investing.

The Big Five banks in Canada, including BNS, had a forgettable performance in 2019. But despite the lacklustre showing, this \$90.42 billion bank is one of the more stable dividend stocks. As of this writing, BNS is trading at \$74.35, which is a barely 3% gain year to date.

Analysts covering the stock are maintaining a positive outlook. Their forecast is a modest gain of almost 9.4% by year-end 2020. The main attraction to TFSA investors, however, is the 4.88% dividend. BNS's dividend track record speaks for itself.

Canada's fourth-largest lender has been paying dividends for 188 years, and it's improbable that this record will be broken in 2020 or anytime soon. In fiscal 2019, net income grew by only 0.85%. The bank raised its loan loss provisions and made some software development.

The stock price today is a good entry point before BNS presents its Q1 2020 results, which are expected to show improvements.

Rogers Communications is one of the Big Three telcos. If your time horizon is long, you can see the power of dividend investing in this \$33.88 billion company. The stock has returned 189.47% in the last three years. The current yield of 2.99% is safe and sustainable, given the conservative payout ratio of 50.38%.

Rogers has the lion's share of the wireless segment and one-third share of the sector's total revenue and subscribers. The company added nearly 1.4 million subscribers to its customer base after introducing unlimited data plans. But Rogers had to sacrifice 5% of wireless service revenues.

Nonetheless, the telecom sector is a near-monopoly, so the business should remain stable for years. Just like **BCE** and **Telus**, Rogers needs to invest more in 5G networks, while dealing with lower cellphone rates. With a growth rate estimate of 4.2% in the next five years, analysts are predicting a 21.7% capital gain.

Zero tax for the responsible TFSA user

The tax-free benefits of the TFSA shouldn't go to waste due to a simple oversight. Only you, as a responsible TFSA, user can ensure "zero" TFSA tax.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RCI (Rogers Communications Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:RCI.B (Rogers Communications Inc.)

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