Canada Revenue Agency: Commit These 2 TFSA Blunders and the CRA Will Charge You Taxes

Description

Almost 50% of households in Canada are maintaining at least one Tax-Free Savings Account (TFSA). This investment vehicle that came to be in 2009 is facilitating wealth build-up for future financial security.

Unfortunately, many users are paying taxes when they should be paying none at all. Frequent trading and overcontribution are two of the biggest blunders you can commit. The reprisal for these mistakes is that the Canada Revenue Agency will charge you taxes.

Making business income

The CRA is harsh to account holders who abuse the TFSA. No one is allowed to conduct day trading or frequent buying and selling of stocks within a TFSA.

Here's an example.

Husky Energy (TSX:HSE) has been experiencing price fluctuations lately. About 16 years ago, Husky was trading at $21.38 per share. As of this writing, the price is $8.06, or 62.3% lower. In 2015, the company reported massive losses but was able to bounce back in the next three years and post profits each year.

Over the trailing 12 months, Husky has lost by 47.07%, and year to date the negative is 22.46%. The current price is almost its 52-week low. When the stock is trading at rock bottom, speculators anticipate a turnaround. With market analysts projecting a climb to $14 in the next 12 months, it's tempting to catch the wave.

The CRA can detect if you're indulging in frequent trading. Once found guilty of the offence, your earnings automatically become business income. Hence, all gains are taxable. Remember that Husky pays a high 5.84% dividend.

Overcontribution

Overcontribution happens one way or the other if the TFSA user is unaware of the contribution limits or available contribution room. The CRA will penalize you 1% of the excess every month. Although it's rare, the TFSA penalty tax could be as high as 12% if it takes you 12 months to remove the overcontribution.

Usually, you can get carried with a stock like **CanWel** (TSX:CWX), which pays a generous 10.07% dividend. Your $6,000 TFSA annual contribution limit could produce an instant income of $604.20. The low price of $5.53 per share and the super-high yield tempt you to invest more for higher tax-free income.

Vancouver-based CanWel is a $430 million company that distributes building materials and home renovation products in Canada, the western United States, and Hawaii. Likewise, it is Canada's only fully integrated national distributor in the building materials and related products sector.

The earnings in recent quarters are not impressive, because lumber prices are low. A rebound, however, is possible, especially in the U.S., where the housing market is not too worrisome. CanWel is presenting its full-year 2019 financial results on March 11, 2020. Impressive results should propel the stock and be on investors' radars.

No more blunders

Overcontributing to the TFSA is common and forgivable because it can be a mere oversight. But frequent trading is absolutely prohibited. The CRA is unforgiving when it comes to this violation. If you want your earnings from stocks like Husky and CanWel to be 100% tax-free, stick to the rules and use your TFSA correctly.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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