Canada Revenue Agency: Here’s 1 Silly TFSA Mistake to Avoid in 2020

Description

TFSAs serve as a great vehicle to shield your investment earnings from taxes. However, a lot of TFSA users make this one silly mistake that ends up costing them big money. Here’s what it is and how you can resolve it.

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TFSA contribution limit

The government sets a limit to how much you can contribute to your TFSA account every year, and if you exceed the limit, you suffer penalties. As of this year, the annual contribution room is $6,000. Also, if you withdraw any money from your TFSA, that amount gets added to the contribution room for that calendar year.

Many people are unaware of such rules and end up overcontributing. Any amount added that exceeds the contribution limit is subject to a 1% monthly tax penalty.

To illustrate with an example, imagine you withdraw $2,000 from your TFSA right now. This leaves your contribution room at $4,000 this year. Now, if you were to add $6,000 to the TFSA, the excess $2,000 would be taxed, amounting to $20 each month or $200 for this year.

Correcting the mistake

If you exceed the limit, you are likely to receive an excess amount letter notifying you of that. If that happens, it is essential to act quickly and withdraw the excess to avoid charges. You must do so before the start of the next month, as even if the excess stays for a few days of the next month, you will still be taxed.

In addition, if you believe your case merits it, write a letter to the CRA telling them that you have corrected your mistake.

A blue-chip stock for your TFSA

Stocks with a reputation for quality, reliability, and resilience are highly prized by investors. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock is just that. Grow your TFSA earnings over the long term by investing in this blue chip this year.

Backed by strong growth in the domestic market and with plenty of room for expansion internationally, the bank's share value has been steadily increasing in value each year for the past decade. Between March 2011 and present, the stock has risen in value from $60 to $102.52.

In the same period, the bank has also continually increased its dividend payout annually by an average of 7%. Currently, the bank offers a juicy dividend yield of 4.16%.

The bank's payout to its investors remains highly consistent, presenting a streak that goes back to more than 150 years. Other stocks may offer faster growth, but few can boast of such long-term stability.

In terms of growth, the bank also managed to outperform its peers. In the past five years, it has grown at an average rate of an incredible 12% and achieved an amazing profit margin of 28.33%.

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Summary

Overcontributing to your TFSA account can indeed be a costly mistake, but fortunately, it's one that can be easily rectified. If you are looking for an attractive stock to super-charge your TFSA earnings, consider adding RBC stock to your portfolio.

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