1 TFSA Boo-Boo the CRA Won't Be Easy On

Description

A boo-boo in the Tax-Free Savings Account (TFSA) that most angers the Canada Revenue Agency (CRA) is "an adventure in the nature of trade." It refers to the buying and selling of securities by a user as a business rather than to grow a nest egg.

If you engage in an activity that constitutes carrying on a business in your TFSA, the CRA will treat all earnings as business income. You'll have to pay the corresponding taxes.

Basis of the taxman

The CRA conducts regular audits on TFSA users. There are ways the taxman catches violators of the TFSA rule. The CRA looks into the frequency of transactions and the holding period. It will show from both if you have intentions to purchase stocks then resell for a profit.

Other things the CRA will look into is the nature and volume of stocks as well as the time spent on the trading of the shares. It would be a pity if you misuse your TFSA and suffer the consequence of paying costly taxes.

Focus on growing your TFSA balance

The cure to curb the temptation of engaging in an adventure is to invest in high-yield stocks like **BCE** (TSX:BCE)(NYSE:BCE) and **Rogers Sugar** (TSX:RSI). Both are established dividend-payers with enduring businesses.

BCE, the largest telecom company in Canada by market capitalization, offers a 5.29% dividend yield. An investment of $150,000 could compound to $420,565.63 in 20 years. Assuming your available TFSA contribution room is the maximum $69,500, you can earn a tax-free passive income of $3,676.55 yearly.

For years, BCE has been dominating an industry that is almost a monopoly. With only three major players, the company is averaging $23 billion in revenue and roughly $3 billion in profits. BCE continues to grow its customer base because the telecom giant builds the best networks.

BCE, however, is in a tight spot as the monopoly might end soon. The federal government gave the top telecom firms two years to lower the mid-range wireless service plans by 25%. If not, there will be regulatory action, and new industry players could come in and offer better rates to benefit consumers.

Rogers Sugar is also operating in a near monopoly as there are only three cane sugar refineries and one sugar beet processing plant in Canada. This $506.62 million company is into refining, packaging, and marketing sugar, which is a consumer staple.

Since the late 1800s Lantic Inc. has been the partner of Rogers Sugar. The Lantic Sugar brand is famous in Eastern Canada, while Rogers Sugar dominates in Western Canada.

The sugar business in the country is dependent on population growth, although 95% of Canada's sugar production is mostly for the industrial market. Rogers Sugar is looking at the export markets for expansion, but trade barriers are difficult to overcome. Hence, the focus now is on the high-margin maple products.

In terms of yield, Rogers Sugar pays a generous 7.07% dividend. Your TFSA contribution limit of $6,000 in 2020 could produce a $424.20 tax-free income.

Toe the line

Toe the line if you want to pay zero taxes on all earnings from the TFSA. Your balance can grow significantly with investments in BCE and Rogers Sugar.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:RSI (Rogers Sugar Inc.)

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