



## Canada Revenue Agency: 1 TFSA Mistake That Can Cost You Big in 2020

### Description

The deadline for most Canadians to file their income tax returns is fast approaching. Earlier this month, I'd discussed why it may be a smart move for citizens to [file early](#) rather than stretch out to the last minute. The Tax-Free Savings Account (TFSA) is one of the most dynamic investment vehicles available to Canadians. However, those who are not careful can misuse the TFSA and even punish themselves on their tax returns. Let's examine how that can happen and how to avoid it.

### Watch out for this big TFSA mistake

In late 2019, I'd discussed why it was a [bad idea to use this](#) as a basic savings account — that is, to store cash and nothing else. These tend to be examples of lost potential more than anything. The mistake I will focus on today carries a penalty with it.

Canadians need to avoid overcontributions in their TFSA. There are many investors who go over their contribution limit without knowing it. It is important to remember that when you withdraw from a TFSA, that amount will still count against your contribution room. Right now, the cumulative contribution room in a TFSA is \$69,500. In this example, let's imagine that I maxed out my contribution room on January 2, 2020, with a \$69,500 deposit into my TFSA. I required cash in early March, so I decided to withdraw \$20,000 from that same TFSA.

If I attempted to make another contribution in this calendar year, I would overcontribute to my TFSA. The larger the amount, the more expensive the mistake. The Canada Revenue Agency charges 1% per month for any amount over your TFSA limit. Avoid this by keeping close tabs on your deposits and withdrawals. Better yet, check up on your online CRA account, and it will provide your TFSA information in your profile.

### Here are a few ways to make the best out of your account

Overcontributions are a bummer, but failing to take full advantage of the TFSA can be an even bigger tragedy in the long run. Instead, Canadian investors should look to make the most out of this fantastic

vehicle. In just the last few months, some of the top growth stocks on the TSX could have provided massive tax-free gains in your account.

**Shopify** stock fell below the \$500 mark back during the brutal March market bloodbath. Since then, the Ottawa-based e-commerce giant has been on a roll. The stock closed at \$1,049 on May 19. Its shares have climbed 103% in 2020 so far.

TFSA investors do not have to go all-in on the growth strategy either. There is also the opportunity to rack up nice tax-free income over the long term. **TransAlta Renewables** is a utility focused on renewable power generation that is a solid source of income. The stock last paid out a monthly dividend of \$0.07833 per share. This represents a tasty 6.7% yield.

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