Warning: 3 Ways the Canada Revenue Agency Can Tax Your TFSA

Description

The TFSA (Tax-Free Savings Account) program began in 2009. Individuals over the age of 18 with a valid social insurance number could allocate a part of their savings into the TFSA. Though TFSA contributions are not tax deductible, any withdrawal in the form of capital gains or dividends is tax-free.

However, the Canada Revenue Agency (CRA) can still tax your TFSA contributions if you do not meet certain requirements.

Do not overcontribute to the TFSA

The TFSA contribution limit for 2019 stands at $6,000. Comparatively, the total TFSA contribution limit is $69,500. You need to ensure that you do not overcontribute to this account. Canadians can take a look at the different scenarios that might impact your contributions and attract a CRA tax here.

The Canada Revenue Agency levies a tax of 1% per month on your highest excess TFSA amount in that month.

Tax payable on prohibited investments

If you buy prohibited investments for your TFSA, they are subject to taxes by the Canada Revenue Agency. These investments will be subject to a special tax equal to 50% of the fair market value. In the case of prohibited investments, the holder is liable for a 100% advantage tax on any income earned or capital gains.

Non-resident contributions to the TFSA are taxed

If you contribute to the TFSA while you were a non-resident, the Canada Revenue Agency will levy a tax of 1% per month on these contributions.

So, while investing in your TFSA, Canadians need to ensure that they allocate the appropriate amount each year. Individuals should also invest in assets that are qualified and not prohibited.

But most Canadians do not have the time or expertise to pick individual stocks for their TFSA. For such investors, index equity funds such as the **iShares S&P/TSX ETF** (TSX:XIU) remain an attractive option.

At a time when interest rates are nearing record lows, it makes sense to allocate your funds to equity ETFs. Despite the current volatility, ETFs such as the XIU provide diversification across sectors. Equities have created massive wealth for long-term investors. The XIU provides exposure to 60 of Canada's largest companies and is the most liquid ETF in the country.

Royal Bank of Canada is the XIU's largest holding and accounts for 7.3% of the ETF. It is one of Canada's largest companies with a market cap of $120 billion. The stock is trading at $83.68, which is 24% below its 52-week high.

The recent decline in share prices has meant RY stock has a forward yield of 5.2%. So, if you invest $20,000 in Royal Bank of Canada stock, you can generate over $1,000 in annual dividend payments.

Another Canadian giant part of the XIU is **Shopify**. This tech stock accounts for 6.8% of the ETF and has a market cap north of $120 billion. Shopify continues to battle with the Royal Bank of Canada for the top spot (in terms of market cap).

Investors might be worried over Shopify's high valuation metrics, but the stock has, time and again, crushed market returns to touch new record highs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/27
Date Created

2020/05/24

Author

araghunath