



Canada Revenue Agency: 1 TFSA Mistake That Could Cost You Dearly

Description

The Tax-Free Savings Account (TFSA) is the closest thing to a perfect investment vehicle for achieving a variety of [long-term financial goals](#). According to **Bank of Montreal's** 2019 Annual TFSA study, 66% of Canadians have TFSAs. Average contributions to the account are up 10% from 2018.

The best thing about TFSAs is that you can grow your wealth in the account tax-free. You can also make withdrawals any time without incurring taxes. However, there are some mistakes you can make with the TFSA that can land you in trouble with the Canada Revenue Agency (CRA).

I am going to discuss a critical mistake that could compromise the tax-free status of your TFSA.

Full-time trading with the TFSA

The biggest mistake that some Canadians can make with their TFSA is to use it as a day trading account. If the CRA determines that you are using your TFSA for excessive or frequent trading to earn substantial profits, you could be in trouble. The practice of trading frequently is counter to TFSA-specific advantages.

The TFSA was meant to encourage Canadians to save more money. It was not designed for daily trading. Investors might feel tempted to use their TFSAs to make short-term trades and turn a massive profit. After all, the prospect of not having to pay taxes on the profits from volatile prices of shares is attractive.

However, the CRA strictly prohibits using your TFSA for this kind of trading. It is meant to be an account to hold assets for the long-term. If you use the TFSA for business income, the CRA can take you to court and challenge the tax-free status of your account. The court can rule against you, and you might have to pay stiff penalties and taxes on the income from frequent trading.

There are better ways to utilize the tax-free income potential of your TFSA than trying to outsmart the CRA with day trading.

Income-generating growth stocks

One of the critical advantages of TFSAs is that any assets you store in your account can grow tax-free without affecting your contribution room. Any earnings from assets in the account through interest, capital gains, and dividends will grow your wealth without you having to pay income taxes.

While it might not give you profits as fast as day trading can, it is entirely legal, and you will not have to worry about taxes or penalties. I think an income-producing asset like a dividend stock with the potential to grow can be perfect for your TFSA. To this end, you can consider adding the **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) stock to your portfolio.

Between the oil price decline and the global health crisis, Suncor has been going through several rough months. It is a high-quality energy stock that took a massive beating due to challenging circumstances. The stock, however, seems to be on the road to recovery.

At writing, Suncor is trading for \$23.89 per share. This is up more than 58% after its lows in March amid the pandemic and oil price wars. [Suncor recently slashed its dividends](#) by more than half to adjust to the challenging economic circumstances. With this change, the company can survive the current recession and grow as the economy improves.

Foolish takeaway

Avoid making the mistake of trying to use your TFSA for day trading and use more reliable means to grow your wealth. Using your TFSA to build a portfolio of dividend-paying stocks with substantial capital gains could be the ideal way to go. To this end, I feel that Suncor has the potential to help you achieve long-term financial freedom.

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