Canada Revenue Agency: Avoid This TFSA Mistake That Impacts 33% of Canadians

Description

Investing is complex given the ever-changing global dynamics and economic scenario. While allocating your wealth into a diversified portfolio of assets is key to minimizing risks, there are other things for investors to focus on. These include asset allocation, risk exposure, investment vehicles, and investment duration.

The Tax-Free Savings Account (TFSA) is one of the most flexible tools available for Canadians. While the TFSA was launched back in 2009, people still make a lot of mistakes while investing in this account. Around 33% of Canadians overcontribute to the TFSA and attract penalties from the Canada Revenue Agency.

You need to understand the contribution room for the TFSA. For example, if you were eligible to contribute to this account since its launch in 2009, the total contribution limit is $69,500. If you regularly contribute to the TFSA, you need to be wary of the yearly contribution limit.

The TFSA contribution limit for 2020 stands at $6,000. So, if you had maxed out your TFSA contributions in 2019 (which stood at $63,500) and contributed $10,000 this year, it means you have overcontributed by $4,000.

The Canada Revenue Agency will then levy a 1% tax per month on the excess amount. This means you will incur a fine of $40 per month until the issue is resolved by withdrawing the excess amount or it’s absorbed in the contribution room for the following year.

Invest in your TFSA for long-term growth

Once you know how much to contribute, you can use the TFSA to generate sizeable returns. The contributions towards this account are not tax-deductible. However, any withdrawals in the form of capital gains or dividends are tax-free.

Canadians can consider stocks such as **Thomson Reuters** (TSX:TRI)(NYSE:TRI) for their TFSA portfolio. Thomson Reuters is one of the leading providers of business information services. It generates a majority of revenues by selling information and software services on a subscription basis. In 2019, 78% of company sales were recurring in nature, which will help the company offset business cyclicality.

Thomson Reuters's business model helps it generate a steady stream of cash flow. This allows it to pay dividends to shareholders. The stock is trading at $95.46. Its dividend per share is $2.12, indicating a forward yield of 2.2%. The company is focused on maintaining a disciplined capital structure and has targeted a maximum leverage ratio of 2.5.

Thomson Reuters has forecast the professional content market segment at $13 billion, which is growing at 1% annually. Comparatively, the software market business is forecast at $21 billion and growing at 8% annually. Thomson Reuters announced its first-quarter results last month and reported sales of $1.5 billion — a rise of 2.2% year over year. Its operating profit rose from $274 million to $290 million in Q1 as well.

What next for investors?

The COVID-19 pandemic will impact company sales in 2020. Thomson Reuters had initially forecast sales growth between 4% and 4.5%. This has now been revised to 1%. The outlook is not too bad given that several firms across industries have been hit hard.

Thomson Reuters is one of the top stocks in the TSX and can be a winning bet for your TFSA. It has easily outperformed the broader markets in the last five years and is up 77% since June 2015.

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