CRA Warning: You're Making Too Much in Your TFSA

Description

The Tax-Free Savings Account (TFSA) has been a huge success for Canadian investors. In the last 11 years, since its introduction in 2009, investors have been given thousands of dollars of contribution room to make investments in Canadian companies.

As of Jan. 1, 2020, the total contribution limit for the TFSA is $69,500. That's a lot of room to make a lot of money. But there is a word of warning that the Canada Revenue Agency (CRA) wants investors to take into consideration. That warning: don't make too much money.

Too much of a good thing

In this instance, I'm not talking about overcontributing to your TFSA. This is a huge problem as well, but what I'm talking about is taking that contribution room and using the TFSA as a business. Say you're an investor that becomes savvy enough to make trades often; this could get you into trouble with the CRA.

The CRA, over the last few years, has started to look for investors using the TFSA as a business and perform an audit. While there aren't any guidelines available, analysts have found that the magic number seems to be a TFSA worth $250,000.

But again, there are no hard and fast rules. It's mainly what the CRA says goes. So, the lack of rules means the CRA can take advantage of that. If they believe you went outside what is considered appropriate, your TFSA could be taxed as a business. Some of the factors seem to be include how many transactions you make, how long you own a company for, how much you know about the market, the amount of time you spend making and trading investments, and financing.

Another option? Stable growth

Luckily, you can still make a lot of money by choosing an industry that is set to soar without the CRA worrying about it. Right now, that seems to be the energy sector. Energy companies are setting up for a rebound, as the oil and gas industry seems to be getting back to normal.

A great option would be a large, diversified company like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ). The company is one of the largest producers of natural gas in Canada, and its diverse portfolio means that it should rebound ahead of many of his peers. Yet the stock still offers a potential upside of 73% to reach pre-crash levels and an amazing dividend yield of 7.01% as of writing.

If you were to take half of your TFSA contribution room and put it towards CNR, in a year you could see share prices rebound to pre-crash levels. That would bring your initial investment of $34,750 into a whopping $60,789.96 in just a year. Meanwhile, your dividend income could be $2,427.60 per year compared to pre-crash levels of $1,387.20 from the same investment.

Foolish takeaway

It can seem like a great idea to use the TFSA as almost a side hustle. After all, you got it to make money, right? But the idea is that the government and CRA is giving you an opportunity to help out Canadian businesses. This is why there is a limit. As long as you follow the guidelines and don't try any thing sneaky, you should be fine, because the whole point of a TFSA is that you *don't* get taxed.

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Author
alegatewolfe