
# Why the Canada Revenue Agency Might Tax Your TFSA in 2020

### Description

If you're smart, you invest with a Tax-Free-Savings Account (TFSA). These tax-advantaged accounts can *permanently* protect your money from taxes. Dividends and capital gains are tax free. So are withdrawals.

But there are two ways in which your Tax-Free Savings Account could be taxed by the Canada Revenue Agency. Sometimes, all it takes is a tiny mistake.

Whether or not you're aware of these mistakes, the CRA can still take your money. It can pay off big to refresh your brain on the rules below. Otherwise, you may receive a surprise TFSA tax bill.



## Don't forget these numbers

Most TFSA investors are familiar with the annual contribution maximum. This number has changed erratically over the years.

The annual contribution maximum was set at $5,000 annually from 2009 to 2012. It increased to $5,500 for both 2013 and 2014. It then spiked to $10,000 in 2015, only to fall back to $5,500 from 2016 to 2018. For both 2019 and 2020, the maximum is $6,000.

When you add all those numbers up, you get $69,500. That's the theoretical limit that anyone can contribute to their TFSA as of 2020.

You may think that the term *annual maximum* implies that you can't contribute more than that figure in any given year. That is wrong. The only number that really matters is your personal *lifetime maximum*.

All Canadian residents qualify for a TFSA when they turn 18. That year, your personal lifetime maximum starts accruing. But unused contribution room rolls forward year to year. So if you turned 18 in 2008 and have never contributed to a TFSA, you can immediately invest $69,500, even though that far exceeds the annual limit.

Just be careful with this. If you contribute *more* than your personal lifetime limit, the CRA will quickly find out. Once they do, you must pay a 1% monthly tax on any excess amount. Ouch.

Know your personal lifetime limit, and always try to invest the maximum. Just don't go a penny over the limit.

## TFSAs are for long-term investors

This is perhaps the most dangerous mistake of all. It could literally cost you millions of dollars.

TFSAs are designed for long-term investing. This isn't a problem considering this investing strategy repeatedly produces the best results. As Warren Buffett often quips, "Our favourite holding period is forever."

There are dozens of stocks that you can buy *right now* that can produce double-digit returns for decades. If you invest $10,000 and generate 10% annual returns, you'll have $175,000 after 30 years. That's nearly *20 times* your original investment.

But what if you stray from stocks that generate long-term, consistent wealth? What if you day trade in your TFSA?



The results won't be pretty. Your performance will likely suffer, but even worse, the CRA will come after you hard. If you trade frequently in a TFSA, the CRA will deem that a business activity. Your money will then be taxed as business income, stripping you of your tax-advantaged status.

This is easily the most damaging error to make, but it's also one of the easiest to avoid. Maintain a long-term investing horizon and stick with stocks that can build wealth over decades.

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