CRA Penalty: Avoid Getting Your $6,000 TFSA Taxed!

Description

Canadians with a valid Social Insurance Number (SIN) can start building wealth through the Tax-Free Savings Account (TFSA) when they turn 18. Every year, the Canada Revenue Agency (CRA) sets a full TFSA contribution limit. The annual contribution limit is indexed to inflation, and in 2020, the cap is $6,000.

The TFSA is the fastest way to grow your savings and accumulate wealth. You can save money to purchase eligible investments like stocks to place in your account. Whatever interest, dividends, and capital gains you will earn are tax-free.

Ideally, the CRA shouldn't be imposing any tax penalties. However, keeping the TFSA completely tax-free depends on a user. You must be familiar with the rules or instances when the agency can tax you. Avoid them, and your $6,000 is 100% tax-exempt!

Stick to the contribution limit

Disciplined TFSA users earn tax-free income for life by not going beyond the annual contribution limit. When you exceed the $6,000 TFSA contribution limit in 2020 or other years, the excess amount is subject to a penalty tax of 1% per month. You correct the mistake and avoid paying taxes by immediately withdrawing the excess amount.

The contribution room accumulates such that if you've never contributed to a TFSA, you can deposit a total of $69,500. Unused TFSA contribution room carries over from one year into the next. The set-up makes the TFSA unique because you can reap tax benefits for years.

No frequent trading

Over-contribution is the common mistake of TFSA users. But some overenthusiastic account holders take it to the extreme. The CRA prohibits frequent trading inside the TFSA. The tax agency canconduct audits or reassessment of trading activities.

Under the tax rules, you’re not supposed to invest in the TFSA and make it a business. If the CRA catches you actively trading securities for short-term profits, it will treat your earnings as regular, taxable business income. Aside from frequency, the CRA will look into the holding period and quantity of stocks.

TFSA mainstay

Rogers Sugar (TSX:RSI) is ideal in a TFSA. The share price is relatively low at $4.82. Your $6,000 can purchase nearly 1,389 worth of shares. This $501.4 million sugar producer and refiner pay a generous 7.41% dividend. It will generate $444.60 in tax-free income. Your TFSA balance should also double in less than 10 years.

With its diversified line of sugar products (pure commodities and value-adding products), Rogers Sugar can generate profits and sustain dividend payments. TFSA users hold the stock in their portfolios primarily for the high yield and dividend consistency.

Rogers Sugar is underperforming on the **TSX** with an 8.7% year-to-date loss. The price did not swing as much at the height of the coronavirus-induce sell-off in March 2020. Analysts forecast a 14.1% price appreciation in the next 12 months. Furthermore, this rock-solid dividend-payer will continue to rule in the industry due to the lack of competition.

Superior above all

The TFSA is unique and superior to other investment vehicles. Money growth is quicker and problem-free if you can manage your account correctly. The tax consequences are avoidable if you strictly abide with the rules. Also, the TFSA is super flexible since you can withdraw any time you wish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:RSI (Rogers Sugar Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise

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