



## CRA WARNING: 1 Big TFSA Mistake You're Probably Making!

### Description

Since its creation in 2009, the Tax-Free Savings Account (TFSA) has become the most beneficial tool in an investor's arsenal. In fact, it hasn't been unheard of for investors to turn even a small investment into a \$1,000,000 portfolio in just about a decade.

But before you go and start trying your shot at short-selling to become an overnight millionaire, watch out. The Canada Revenue Agency is warning Canadians that many of you are using the TFSA all wrong. So, make sure you don't make this huge TFSA mistake.

### Business or pleasure?

Many investors believe that should the chance come their way, day trading could be the perfect option to get rich. All you'd have to do is find that *one* stock, and boom! You're an overnight millionaire. But that would be a huge TFSA mistake, according to the CRA.

If you're frequently trying your hand at investing, buying and selling on a daily basis, the CRA is going to bring up a red flag on your account. Especially if your TFSA starts showing some increasingly high numbers. If it looks like you're trying out day trading in your transaction history and have the funds to show for it, the CRA might decide that your account is being used as a business.

Day trading is a profession, and that's not what the TFSA is supposed to be used for. The TFSA is designed for investors to invest in Canadian companies long term. So, day trading would make you lose your TFSA's tax-free status. Suddenly, all that cash you've earned does indeed need to be reported on your income tax return.

While the rules aren't exactly clear, there have been cases of people making \$250,000 coming under review in the last few years. So, if you want to get rich in the long run, what's the solution?

### Buy and hold

Instead of putting your TFSA at risk, choose quality stocks and hold onto them for decades. This can indeed include companies that stand to make a killing in the next several years. The CRA can't hold you at fault if you simply chose a good stock, only if you're trying and failing over and over again.

In the case of buy-and-hold stocks, you can't go wrong with Canadian banks. The [Big Six banks](#) have fared as some of the best in the world during economic downturn, coming to pre-crash levels within a year's time. And one of the best and biggest by market capitalization is **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)).

The bank has already done the heavy lifting of expanding into the United States and is now working on emerging markets in Latin America. It also has strong revenue coming in from wealth and commercial management. So, all that cash is flowing right back into the hands of investors.

In the last five years, the bank's compound annual growth rate (CAGR) is at a strong 10.54%. It's now only 2.57% lower than where it was a year ago, with shares at \$98.12 as of writing. Meanwhile, the company actually increased its dividend yield, even during the downturn. Right now, it sits at 4.43% for today's investor.

## Bottom line

You don't have to start day trading to get rich; you just need patience. Investing in a strong stock like Royal Bank means it may not be overnight, but you can certainly achieve riches eventually. And, of course, the CRA can't come knocking at your door.

How long would it take? If you were to put \$60,000 of your \$69,500 TFSA contribution room and [reinvest dividends](#), you could reach \$1,444,794.82 in the next 25 years alone. That's without purchasing another penny in the stock. So, don't make this TFSA mistake. Just choose the right investment from the start.

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