WARNING: The CRA Actually CAN Tax Your TFSA!

Description

It's true. While the Tax-Free Savings Account (TFSA) may have "tax free" in the title, it can be taxed. But before you panic, know that while this isn't common knowledge, it can be avoided.

The goal of the TFSA is to provide a safe place to invest tax free in Canadian companies. You can then withdraw any time, only paying a commission fee. However, there are a few instances where the Canada Revenue Agency (CRA) actually can start taxing your TFSA. And taxing it big.

Problem one: Not keeping it Canadian

The biggest issue that Canadians run afoul of is investing outside Canada. This is a rule that might not be well known. In fact, many investors make this mistake in the early days of holding a TFSA. The biggest stocks you can think of are often Canadian. Or, even worse, you look for a Canadian company and you end up investing in the New York Stock Exchange option, for example.

What happens is all the returns you make on those stocks will be taxed by the CRA. The goal of the TFSA is to keep Canadians investing in Canadian businesses. Even if you invest in a Canadian company in the United States, for example, you've still invested in the wrong stock market.

So, make sure when you're investing to keep your stocks Canadian, and you should quickly fix this rule.

Problem two: The business

Another problem investors come across is pretty simple, and it can create massive problems. I know what you're thinking: "I'm not using the TFSA as a business, so this shouldn't be a problem." It's not that simple, I'm afraid.

The TFSA offers small contribution limits for a reason. It's so you can make small investments, and not start making enormous amounts of cash that can't be taxed by the CRA. The CRA is already cracking down on people who have turned even $5,000 into $250,000 within a year, for example, saying these people were using the TFSA as a business.

So, what constitutes a business? It's still a bit of a grey area, but if you taking part in day trading, using specialized research services, special software for investing, making enormous profits, or even just making returns that seem too high to the CRA, you could be taxed as a business. Unfair, I know, but again the CRA does not want to miss out on *all* the taxes for those who really know what they're doing.

Another option? Relax!

Stop worrying about investing and choose Canadian stocks that you can buy and hold for decades. This won't set off a single alarm bell with the CRA, and you can rake in as much cash as is available. You'll want a company that's likely to see large returns over the next several years, and dividends to boot to reinvest or keep the tax-free cash.

A great option to consider **WPT Industrial REIT** (TSX:WIR.U). This company owns light industrial properties across the United States used for shipping and receiving products. The company has 102 properties as of writing with about 98% occupancy. Revenue has climbed steadily, with the recent year-over-year increase reaching 35.9%! Meanwhile, you can take advantage of a 5.78% dividend yield as of writing.

The company is tied to the growth in e-commerce due to the shipping and receiving of online products. So, as e-commerce continues to boom, expect great things from WPT Industrial. Also expect even more acquisitions across the country and, I'm sure, soon the world.

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