# Canada Revenue Agency: 62% of Canadians Make This TFSA Mistake!

### Description

Opening a Tax-Free Savings Account (TFSA) is one of the best financial decisions you can make. With a TFSA, you can make investments tax free, sparing you thousands in taxes you'd normally pay to the Canada Revenue Agency. In 2020, you can contribute up to $69,500 in a TFSA. That's a decent-sized portfolio for an average Canadian. And when you factor in all the tax benefits, it's equivalent to a much larger taxable account.



But there is one huge mistake many Canadians make with their TFSAs. According to *StatCan* data, about 62% of Canadians made this mistake in 2017. It's a pretty easy mistake to fix, if you know what it is. But if you're still in the dark about it, you're at risk of falling into a trap.

So what is this TFSA mistake, and why is it so dangerous?

## Having a TFSA but making no transactions

Having a TFSA but making no transactions in it is a huge mistake that could cause you to forfeit all the tax benefits of the account. In order to realize tax savings from a TFSA, you need to have taxable gains in it. You do not save on taxes just by contributing. So by just stashing cash in your tax free account, you're rendering it effectively useless.

Yet many Canadians do just that. According to *StatCan,* 14,095,000 Canadians held TFSAs in 2017. Of those, 8,868,340 made no transactions. That means 62% of Canadians didn't buy or sell any investments in their TFSAs. Apart from investments they may have had from past years, these Canadians realized no tax benefits from their TFSAs. That's good news for the Canada Revenue Agency, but not for those Canadians.

## What to do about it

If you have a TFSA, you owe it to yourself to reap its full benefits.

Remember: you realize no tax benefits by holding cash in a TFSA. Technically, the interest on savings accounts is taxable, but the taxes on 0.05% interest are negligible, and the CRA is unlikely to chase you for a few bucks in interest income. Really, you need significant taxable gains to truly benefit from a TFSA.

That means holding investments like stocks and bond funds. If you hold an ETF like the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in a TFSA, you have two sources of returns:

- Dividends.
- Capital gains.

Outside of a TFSA, dividends and capital gains are both taxed. Dividends are grossed up and then taxed at your marginal rate minus a 15% credit. Capital gains are taxed at your marginal rate with 50% of the gain tax-exempt. With an ETF like XIU, the gains from both dividends and capital gains could be substantial.

For example, if you realized a $10,000 gain plus $3,000 in dividends, you could pay several thousand dollars in taxes. The TFSA would spare you all of them–assuming you stayed within the $69,500 limit. So clearly, holding investments in a TFSA is always a smart tax move. Holding cash in one? Not so much.



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**Date**
2025/08/26
**Date Created**
2020/11/13
**Author**

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