CRA: Avoid This #1 Mistake With Your TFSA

Description

The Tax-Free-Savings Account (TFSA) is the undisputed wealth-builder in Canada. If you haven't opened one, it's time you do and be on the road to prosperity. Aside from the unique features, the tax advantages to TFSA users are out-of-this-world.

You can't liken a TFSA to a savings account because it's not. The account is a tax-sheltered savings vehicle in reality. Current users love their TFSAs for so many reasons. But above all, the interest, gains or profits you make inside are untouchable by the Canada Revenue Agency (CRA). You couldn't ask for more.

The TFSA accepts various instruments such as cash, bonds, GICs, mutual funds, ETFs, and stocks. However, the account is open to abuse. The earning potential is incredible that it's tempting to do what the CRA prohibits. But it's a massive mistake you should avoid.

Don't carry a business in your TFSA

The CRA does not allow carrying a business in a TFSA. Thus, know early on that your stock trading activity could constitute a business. You can't become a day trader chasing huge tax-free returns and get away with it. The CRA conducts audits, so don't be shocked if they catch to be carrying a securities trading business.

There are severe consequences to the account holder and the financial institution that issued the TFSA. A misbehaving user faces heavy penalties, including a court case. More important, all profits arising from frequent trading becomes taxable business income.

Red flags

Millions of additional taxes have been recovered or collected from violators of the TFSA rule. Be mindful of the factors that catch the eye of the CRA. The tax agency looks at the frequency of the transaction and the duration of the holdings. It will determine whether there's an intention to purchase securities for resale at a profit.

Other red flags are the nature and quantity of the securities, and hours spent on the activity. The CRA wants to emphasize that the TFSA is an investment vehicle for Canadians to save for the future or build retirement.

Make this your core holding

Let's cut to the chase and identify the blue-chip stock that's ideal for your TFSA. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is the only company to post both revenue and profit growths during the 2008 financial crisis.

TD is also the second-largest bank in Canada, whose dividend track record is 163 years. If you're buying the stock today to make it the core asset in a TFSA, the share price is $64.48. The dividend yield is 4.9%. You don't need to trade if you have a buy-and-hold asset. Keep it as long as you want and let the income flow for years.

The $116.84 billion bank consistently delivers concrete results. Yes, the pandemic and low-interest-rate environments are headwinds, but TD will endure. Its 60% payout ratio assures the safety and sustainability of dividends. TD is also the first Canadian bank with a financial target to support a low-carbon economy transition.

TFSAs are for everybody

The TFSA is for everybody, most especially millennials with longer time horizons. Remember the rules governing the account and it should be problem-free.

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cliew