Canada Revenue Agency: Keep Your TFSA Tax-Free With This 1 Little-Known Trick

Description

The Tax-Free Savings Account (TFSA) is an excellent tool for Canadian investors. Introduced as a way to encourage Canadian households to improve their savings practices, it is also an excellent investment tool.

The tax-free status of the account makes it a valuable tool. However, Canadians often make the mistake of using the account without understanding the tax implications that exist. Yes, the account is supposed to be tax-free. However, you have to remain within certain guidelines to retain its tax-free status.

If you use it for regular trading activities, the Canada Revenue Agency (CRA) can tax your income as business income. However, there is another mistake that some Canadians make with their TFSAs without realizing it: forgetting about Uncle Sam.

Avoid holding U.S. dividend stocks

Your TFSA is a powerful tool to keep the CRA at bay and stop them from taking a chunk of your income if you play by the rules. However, there is a way that the U.S. taxman can come to collect some of your earnings.

If you are receiving dividend payouts from U.S. securities in your TFSA, your account can lose its tax-free status. Any U.S. dividend-paying stocks you own in your TFSA is liable to a 15% withholding tax from the US.

Suppose that you really want to hold U.S. dividend securities, but you don’t want to pay taxes on them. You can hold the stocks in a Registered Retirement Savings Plan (RRSP). The returns from U.S. securities in an RRSP are not taxable.

Canadian dividend stock with US exposure

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a **TSX** stock that provides its investors with exposure to the U.S. markets and pays dividends that can't be taxed by Uncle Sam or the CRA. TD is an ideal asset for investors who want to maximize capital growth inside their TFSAs in the long run.

TD is a reliable dividend stock that has been a staple investment for investors with a long-term horizon. It is one of Canada's oldest banks, and has been providing its shareholders with dividends for the last 164 years without missing a single year. It means that the bank has continued its impressive streak through two World Wars and several recessions.

With its streak continuing through the current pandemic, TD has paid its shareholders through two global pandemics. It is safe to say that the stock is well positioned to weather the market turbulence and provide fantastic returns to its investors.

Additionally, TD's expansion into the U.S. retail banking sector has made it one of the top ten financial institutions due to TD Ameritrade.

Foolish takeaway

Following the intricate rules of the TFSA can help you retain the tax-free status of your account to maximize your capital growth. Avoid the 15% withholding tax that comes with earning dividends from US securities. A stock like TD can provide you with exposure to the U.S. markets without foreign investments' tax implications.

Investors can leverage the U.S. retail banking segment's movements while holding onto a TSX stock that can provide them reliable dividends. The returns can't be taxed by the CRA or Uncle Sam, and you get to retain your TFSA's tax-free status.

TD would make an excellent investment for your TFSA portfolio for its long-term returns and geographic diversity.

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