Uh-Oh! The CRA Could Tax Your TFSA if You Make This Mistake

Description

The greatest thing about the Tax-Free Savings Account (TFSA) is right there in its name. The tax-free account allows you to hold assets in it that can grow without incurring any taxes. Unfortunately, the TFSA is not entirely free from the clutches of the Canada Revenue Agency (CRA).

The government agency loves to collect taxes whenever it can. The goal of a TFSA is to provide Canadians a safe place to invest without incurring taxes and improve their savings. You can withdraw from the account at any time without charges or penalties. You just need to pay a commission fee for it.

There are instances where the CRA can actually tax your TFSA and make it lose its tax-free status. I will discuss these TFSA mistakes you should avoid.

Day trading in your account

One situation when the CRA can begin taxing your TFSA is if you are using it as a way to earn active income. Remember that the TFSA is essentially a savings account that you can use as an investment tool. That means you should use the account for long-term investments.

Many investors try to use the account's tax-free status to make several trades. The account was not made for regular trading activities like day trading. The CRA is always on the lookout for investors who try to exploit the tax-free status of the account and use their TFSA as a business.

If the CRA finds out you're using your TFSA as a business, you can count on them to begin taxing your TFSA earnings as business income.

Not sticking to Canada

Another issue many Canadians are unaware of is that they use the TFSA to invest outside Canada. This is a rule that might not be too well known. Many investors tend to make this mistake early on when they open their TFSAs. The CRA can never tax you on returns and earnings made through

Canadian stocks held in your TFSA.

However, any income from stocks registered on the New York Stock Exchange makes it open season for the CRA to come to collect taxes. One of the goals of the TFSA is to keep Canadians investing in Canadian businesses.

Investing in a Canadian business registered on NYSE does not count either. You need to invest in the right stock market.

A stock to consider

So, you know you need to hold onto your investments for a longer time, and you need to stick to Canadian companies. It is time to begin building a TFSA portfolio of reliable Canadian companies that can generate substantial tax-free income for you. Ideally, you should look for companies that can earn a decent income in normal and harsh economic environments.

I think a stock like **Telus** (TSX:T)(NYSE:TU) could make an ideal stock to consider building such a portfolio. Telus is a giant in the Canadian telecom sector. Telecoms have become an integral part of our lives with our increasing need to stay connected to each other and the world. Telus is essentially a part of a very important industry that is proving recession-resistant.

Telus is the second-largest telecom operator in the country with a stable and growing business. The stock's valuation at writing is $24.99 per share, and it pays its shareholders a juicy 4.98% dividend yield.

Foolish takeaway

Avoid using your account for day trading, and make sure you stay invested in Canadian companies. That's how you can retain the tax-free status of your TFSA. The next thing you should do is create a portfolio of reliable Canadian stocks that can provide you substantial long-term returns. I think Telus makes the perfect stock to begin building such a portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:T (TELUS)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/25
Date Created
2020/11/30
Author
adamothman