CRA Fines Man $215,539: Do This to Avoid the Same Fate

Description

Did you know that the CRA fined someone $215,539 earlier this year? In August, the revenue agency fined a PEI psychiatrist $80,000 on personal taxes plus $135,000 related to phony corporate expenses. The man got on the CRA's bad side by claiming deductions he wasn't allowed and charging personal expenses to his professional corporation.

It might sound like an extreme story. But it could happen to you. Claiming deductions you aren't allowed or trying to hide income in phony corporations can easily get the CRA knocking at your door. Not everybody is a doctor with hundreds of thousands in annual income, but regular Canadians get dinged for tax evasion all the time. You'll probably never have to fork over $215,000, but the CRA may very well come after you for a smaller amount. If you're worried about that happening, here's a simple way to keep yourself safe.

Limit your tax avoidance to RRSPs and TFSAs

A great way to make sure you're in the CRA's good books is to stick to tax-avoidance strategies the CRA specifically allows. To play it really safe, you could just stick to RRSP contributions and TFSA investments and forego any attempts to claim questionable "business expenses." The CRA is well aware of most of the tax avoidance tricks people come up with. So, if you try to "hide" income somewhere, you'll probably get caught. Ditto for fake expenses. Knowing this, sticking to registered accounts for tax minimization is the best policy.

That's not to say there aren't tax other tax deductions you can legitimately claim. Union dues, work-related travel, charitable contributions and moving expenses make the grade. But if you try to claim anything that's not specifically on the CRA's list, you risk getting fined for tax evasion.

An example of how RRSPs and TFSAs save you money

RRSPs and TFSAs are two accounts that **legally** lower your tax rate. They do so in the following ways:

1. RRSPs give you a tax deduction — on up to 18% of your income!
2. RRSPs and TFSAs both give you tax-free compounding.
3. TFSAs allow tax-free withdrawals.

Both the RRSP and the TFSA are specifically *encouraged* by the CRA. So, using them is one way to lower your taxes *without* getting in anyone's bad books.

Imagine that you have $20,000 sitting around to invest. And you want to invest in **Shopify** (TSX:SHOP)(NYSE:SHOP) stock. If you transfer that money to an RRSP before buying, you get to shave $20,000 off your taxable income — assuming you have at least $20,000 in available space. You would pay no taxes on that $20,000. So, if your marginal tax rate is 30%, you save $6,000 in taxes. You also pay no taxes on your SHOP shares as long as you held them in the account.

Now, let's imagine that you have another $10,000 left over after the RRSP contribution. You want to invest that too. But you have no RRSP space left. In this case, you can no longer get the deduction. But you can still avoid taxes on the stock. By putting the $10,000 into a TFSA and buying SHOP within it, you avoid all potential taxes.

If you double your money, you get a $10,000 capital gain. Of that, $5,000 is normally taxable. But in a TFSA, you pay no taxes on any of it. Outside of a TFSA/RRSP, you pay $1,500 with a 30% tax rate. So, you save $1,500 right then and there thanks to the TFSA.

Talk about a win. And with high-growth stocks like Shopify, doubling your money is very much possible. So, you never know just how much a TFSA could save you. If you invest the full $75,500 available next year and double your money, you could save tens of thousands of dollars … *legally!*

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2. Tech Stocks

TICKERS GLOBAL

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2. TSX:SHOP (Shopify Inc.)

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Author
andrewbutton