



Canada Revenue Agency: Avoid the CRA Taxing Your Brand-New 2021 \$6,000 TFSA

Description

The Tax-Free Savings Account (TFSA) is one of the best possible ways for Canadians to invest to achieve their financial goals. Introduced in 2009, the TFSA has become a revelation for active TFSA users who have realized its potential as an investment vehicle.

Whether you want to accumulate wealth without worrying about paying taxes for your retirement fund, generate a passive monthly income to supplement your active income, or save money for a short-term purchasing goal, the TFSA can help you achieve it all.

The TFSA allows you to hold a certain amount of cash or equivalent assets in the account. Any earnings on your investments held within the account can grow without letting the Canada Revenue Agency (CRA) take a chunk out of it as taxes.

While CRA can't collect taxes on your TFSA income, it will keep a close eye to find any opportunity to come [knocking on your door](#). Here are a few TFSA mistakes you need to avoid with the new \$6,000 contribution room with the 2021 update.

Contributing too much

It is a good thing to regularly contribute to your TFSA so you can maximize the benefits of the tax-sheltered account. However, many Canadians get too eager and overcontribute to their TFSAs. There is a limit to the TFSA, which increases each year. If you turned 18 in 2009, the cumulative contribution room available is \$75,500 after the \$6,000 update in 2021.

The CRA can't tax you on your TFSA income as long as you remain within the limit. The CRA will tax you 1% each month on the excess amount. Try to ensure that you never go over the contribution limit.

Day trading

The TFSA was designed as a way to encourage Canadians to improve their long-term savings practice. There is a reason it's called the Tax-Free *Savings* Account and not the tax-free *trading* account. If you were thinking of getting the bright idea to use its tax-free status for making day trading activity lighter on your pocket, you should know the CRA keeps a close eye on such TFSA users.

If you begin trading heavily using your TFSA, the CRA can tax your profits as regular taxable income. Try to stick to longer-term investments in your account instead of compromising its tax-free status.

The best way to use your 2021 contribution room

If you're not sure about the assets you can consider investing in, to use the contribution room so you can maximize your benefits, **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) is a high-quality tech stock that you could look at for this purpose. Typically, I advise allocating the contribution room to [reliable dividend-paying stocks](#) that you can hold for a long time.

While Lightspeed is not a dividend stock, it was one of the biggest winners on the TSX last year. The stock's valuation is up almost 690% from its March 2020 bottom. Trading for \$94.55 per share at writing, Lightspeed could be an excellent stock to consider adding to your TFSA portfolio.

The omnichannel solutions provider for businesses enjoyed a strong run through the first and second quarters of 2020. The company might be trading for a high valuation, but it keeps posting solid growth metrics that qualify it as a reliable investment. LSPD benefitted from the broader tech stock rally through the year, beating the rest of the sector.

The stock has consistently beat the market since going public in 2019. The company's revenue is growing at an accelerating pace with passing time. Often compared to **Shopify**, LSPD can make you a far wealthier investor through potential capital gains in the long run.

Foolish takeaway

You should avoid overcontributing to your TFSA and day trading using the account if you don't want to compromise its tax-free status. If you want to grow your capital rapidly, investing in a high-quality tech stock like LSPD could be the ideal way to go. You can remain invested in the stock for its profits that can grow your worth tax-free and without affecting your contribution room.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:LSPD (Lightspeed Commerce)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/10/01

Date Created

2021/01/18

Author

adamothonman

default watermark

default watermark