CRA Cash: 1 Little-Known Trick That Will Maximize Your TFSA Returns

Description

You can consider the Tax-Free Savings Account (TFSA) to be the best investment vehicle introduced by the Canadian government to urge Canadians to improve their savings practices. The tax-exempt status of the account and its flexibility makes it quite attractive. You can invest assets and store them in the account to gain absolutely tax-free returns.

However, it would be best if you were careful about what you store in your TFSA. The Canada Revenue Agency (CRA) will be keeping an eye on what you invest in and come knocking on your door if you are investing in assets that do not enjoy tax-free status.

Avoiding withholding tax on foreign dividends

The U.S. equity market boomed to all-time highs as Joe Biden came into power. US stocks have been soaring to new heights. Tech heavyweights like **Apple**, **Microsoft**, and **Alphabet** were among the stocks to see a massive surge. It might feel tempting to get in on the boom and invest in the American equity market. However, you might want to avoid storing U.S. stocks in your TFSA.

The CRA allows TFSA contributions in foreign funds. However, the agency first converts the value to Canadian dollars. The resulting value will determine how much the investment affects your contribution limit. Foreign investments can also be eligible investments, provided that the stock is on the CRA's list of approved designated exchanges.

Investing in foreign dividend stock will lose your TFSA's tax-free status because dividend income from foreign countries is subjected to 15% withholding tax.

Tax penalty on non-qualifying investments

The CRA also charges [tax penalties on TFSA] users if they hold non-qualifying investments in the account. For instance, the foreign stock you invested in has been delisted and moved to over-the-counter. It means the stock is now a non-qualified TFSA investment. Publicly listed Canadian companies can also move to the OTC, but the CRA still considers them eligible for TFSAs.

Holding a non-qualifying investment in your TFSA entails a one-time tax penalty worth 50% of the investment's fair market value when you purchased the asset.

Best stock to maximize TFSA returns

The **TSX** has also performed well after recovering from the February and March 2020 market crash. Canada's equity market also performed exceptionally well to start the year, and there are several Canadian equity securities you can consider investing in for your TFSA portfolio.

Brookfield Renewable Partners LP (TSX:BEP.UN)(NYSE:BEP) is an excellent stock that you can consider for this purpose. Brookfield is trading for $61.50 per share at writing. The stock is up 89.70% from its valuation 12 months ago, and it is paying its shareholders at a decent 2.44% dividend yield.

The company owns a portfolio of renewable energy assets worldwide. It generates electricity through solar, wind, co-generation, biomass, and hydroelectric sources. Headquartered in Toronto, Canada, Brookfield may be producing revenue from globally diversified assets, but it is effectively a Canadian stock.

While its dividend yield may not be high, Brookfield could be a phenomenal investment because it is well-positioned to grow as the demand for renewable energy keeps increasing. Fossil fuels will gradually phase out, and companies like Brookfield Renewables will be there to fulfill the energy demand with renewable sources.

Foolish takeaway

If you are seeking assets with geographically diversified income and substantial long-term potential, you might not have to look towards foreign equity markets. A stock like Brookfield Renewable Partners could provide you with the tax-free returns you seek without compromising your TFSA's tax-free status.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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
2025/07/04
Date Created
2021/01/28
Author
adamothman