
Caution: The CRA Won't Put Up With These 3 TFSA Mistakes

### Description

The Tax-Free Savings Account (TFSA) is easily one of the best ways for Canadians to achieve their financial goals. After its introduction in 2009, the cumulative contribution room in the account has increased to $75,500 with the 2021 TFSA update.



All the income from interest, capital gains, or dividends in your TFSA is tax-free, provided you avoid making some mistakes. The Canada Revenue Agency (CRA) keeps a close eye on investors who are using their TFSAs in ways it was not meant for.

I would highly recommend ensuring that you do not make these common TFSA mistakes if you want to maximize the benefit from your account. These slip-ups can become costly for you in the long run.

## Do not treat it like a regular savings account

Your TFSA can hold a wide variety of income-generating assets. Unfortunately, many Canadians make the mistake of treating it like a regular savings account and store only cash in their TFSAs. Holding cash in your TFSA is a mistake that does not warrant any action from the CRA. However, you would cost yourself thousands in potential long-term returns.

## Never exceed the contribution limit

A TFSA user should never have to pay taxes in the account. There is a limit to which you can contribute to your TFSA, and the CRA increases the contribution room each year. If you ever cross the line, the government agency can charge you 1% in tax penalties each month for every dollar of the excess amount.

You should try to maximize your TFSA contributions, but make sure that you never go over your contribution limit. If you are not sure about how much room you have left, you can contact the CRA to ask how much you can invest before reaching the limit.

## Avoid foreign dividend assets

The tax-exempt status for dividend income in your TFSA does not extend to dividend income from foreign assets. Foreign dividend payments are subject to 15% withholding tax in a TFSA, and you cannot recover that tax. You can only claim foreign tax credit in a non-registered account. It would be ideal to stick with Canadian dividend stocks in your TFSA for tax-free returns.

## High-yield Canadian stock to consider

**Pembina Pipeline** (TSX:PPL)(NYSE:PBA) could be an excellent stock to consider for this purpose. Active TFSA users can add the stock to their TFSA portfolio for several reasons. The energy sector took a beating between the oil price crisis and decreased crude oil demand.

The pipeline giant's discounted share price could make it a valuable investment for your TFSA. You can benefit from its capital gains, as the stock recovers in the post-pandemic era. Additionally, its juicy 7.22% dividend yield can keep adding tax-free cash to your account balance that you can use to reinvest in other stocks for your TFSA portfolio.



$19.20 billion energy infrastructure company is a crucial midstream operator, because the world needs oil. While its business model insulates Pembina from commodity price risks, decreasing revenue during unfavourable market conditions can drive its valuation down. Despite oil prices crashing in the last two decades, Pembina has displayed resilience and financial stability.

The company's high dividend yield is safe and secure due to its contractual agreements that provide predictable cash flows.

## Foolish takeaway

Avoid the TFSA pitfalls that can allow the CRA to dig into your passive income for taxes. Using your TFSA contribution room for a portfolio of reliable dividend stocks can help you generate passive income to become a wealthier investor in the long run. Pembina could be an excellent addition to your TFSA portfolio to provide a boost to your wealth growth.

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adamothman