TFSA Users: 3 Huge Mistakes to Avoid With the CRA

Description

Canadians can reach their savings goal faster through the Tax-Free Savings Account (TFSA). Unlike RRSPs, contributions to your TFSA are not tax-deductible like the Registered Retirement Saving Plan (RRSP) contributions. You can maintain the account for life and not close it on your 71st birthday.

The best part of all is the tax-free growth of investment income and capital gains from qualified investments inside a TFSA. Your withdrawals are also tax-exempt and will not result in lost contribution room for a user. There's no minimum or maximum income level to open a TFSA as long as you're 18 years old beginning 2009.

More importantly, the Canada Revenue Agency (CRA) won't be a thorn in your side provided you abide by its rules and don't make mistakes. Otherwise, you'd be paying needless penalty taxes due to these miscues.

1. Don't exceed the contribution limit

Follow the mandated annual contribution limit every year in order to be free of the CRA's taxes. If the new 2021 limit is $6,000, don't exceed that amount. After you max out this year's limit, wait for the the tax agency's new limit in 2022. However, you can add the unused contribution limit, if any, to increase your available room. The penalty tax is 1% of the excess contribution.

2. Holding foreign assets

The CRA allows international diversification, although it has tax implications. You can hold foreign assets or stocks in your TFSA but risk a withholding tax, unlike when you keep only local assets. Dividend or investment income from abroad is subject to a 15% withholding tax. Your remedy in this instance is to hold foreign assets in an RRSP instead.

3. Frequent trading draws CRA’s attention

The CRA prohibits TFSA users from carrying on a business in this unique registered account. Frequent buying and selling of stocks to earn profits is a *big* mistake. The tax agency could deem all your earnings and gains as business income once it confirms that you have broken this golden rule. Your income is no longer tax-exempt.

Tip for TFSA investors

Telco stocks are excellent in a TFSA because they are recession-resistant. However, if you were to take a position today, **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) is the better choice than **BCE** or **Telus**. Unlike the two giants, Canada’s third-largest telecom reported a net income growth in Q1 2021.

Despite the continued pandemic lockdown environment, you should credit the $31.22 billion company’s strong execution in wireless, cable, and media segments’ solid operational improvements. Similarly, the forthcoming merger with **Shaw Communications** is something we could all look forward to.

If you were to invest today ($61.64 per share), the dividend yield is a respectable 3.24%. Market analysts are bullish and forecast the price to climb 29.8% to $80 in the next 12 months. TFSA investors can’t go wrong with having Rogers Communications in their stock portfolios.

The fourth costly mistake

Users can hold bonds, mutual funds, GICs, ETFs, and stocks in their TFSAs. Cash is a qualified investment, too, but I did not mention it intentionally because your TFSA is not the place to park idle cash. Since cash is hardly an income-producing asset, you’ll miss out on substantial tax savings and tax-free money growth. You can say that storing cash is the fourth costly mistake of most TFSA users.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)

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
2025/07/03
Date Created
2021/05/11
Author
cliew