Canada Revenue Agency Says To Avoid These 2 Big TFSA No-Nos

Description

A Tax-Free Savings Account (TFSA) lets you grow your savings without paying a dime into taxes and dealing with the CRA. However, this is only possible when you're maintaining your TFSA in line with the CRA guidelines. Otherwise, the tax people will come knocking at your door.

The CRA categorically advises investors to avoid two things: over-contribution and overtrading.

Do not over-contribute

Everyone who opens a TFSA knows that overcontribution is a big no-no. However, many people still end up over-contributing and paying 1% every month on the excess TFSA amount to the CRA. While it is important to remember the maximum annual limit for TFSA contribution ($6,000 this year), you also need to be mindful of these two things to avoid over-contribution and its fallout.

- If you are withdrawing from your TFSA, you can contribute the same amount back to the account, but only in the following calendar year. If you withdraw and re-contribute in the same year and the sum of initial contribution and re-contribution exceeds the annual limit, you have to pay the taxes on the excess amount.
- If you are moving your TFSA from one financial institute to the other, always do it in the form of bonds and stocks instead of cash. If you do it in cash, it will be considered a withdrawal from the TFSA, and you can't re-contribute it until next year.

Do not overtrade

If you've started day trading in your TFSA, there's a strong possibility that the CRA will catch you. The CRA's mantra is pretty simple: an account that frequently trades stocks might harness taxable business income.

There is no definite number of trades that you can make in your TFSA in a particular time window. You need to exercise caution and refrain from acting like a day trader.

Make the most of your TFSA

You may not mind paying to the CRA if your TFA is growing at a good pace. Holding some stocks can help you with growing your TFSA. Case in Point: **TC Energy Corp.** (TSX:TRP)(NYSE:TRP).

TC Energy is a Calgary-based energy company that operates in the U.S., Canada, and Mexico. It primarily manages natural gas and oil pipelines and power generation facilities.

The company has been handling 25% of the continent's natural gas demand with its pipeline network. Moreover, it is shipping 590,000 barrels of crude oil across the length and breadth of North America every day. Having a core business firmly connected to utilities allow TC Energy to experience steady growth and profits.

In the last five years, TC Energy Corp. has experienced over 60% stock growth, and currently, it is paying a 4.51% dividend yield to its investors. If you had invested $10,000 in TC Energy five years ago, you would have taken over $16,000 home. The sales of TC Energy are expected to grow by 4.6% this year.

The strong balance sheet and continuous growth indicate that the stock can maintain its good streak in the next few years as well.

Bottom line

If you don't want your TFSA to become tax-liable, always refrain from overtrading and over-contributing. Putting yielding stocks in your TFSA can also help you with that to some extent.

By having a stock in your TFSA that grows and pays good dividend payouts, you may not feel the need for overtrading.

CATEGORY

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2. Energy Stocks
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TICKERS GLOBAL

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2. TSX:TRP (TC Energy Corporation)

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Date
2025/08/25
Date Created
2020/03/13
Author
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