



Use Your TFSA to Generate a Tax-Free Income Stream

Description

Tax-Free Savings Accounts (TFSA) not only provide an ideal vehicle to build wealth by removing the corrosive effect of taxes on investment returns, but they can also provide a means of generating a growing tax-free income stream. The government last week declared that the TFSA contribution limit for 2020 would remain unchanged from 2019 at \$6,000. That brings the total contribution room for an eligible Canadian who has never contributed to TFSA since they were introduced in 2009 to \$69,500.

The accounts provide the opportunity to generate a modest recurring tax-free passive income that can be used to supplement other forms of income. The key to building a [sizable nest egg](#) and converting that to an income stream is patience and buying the right stocks. The most appropriate stocks are those with wide economic moats, strong growth prospects, solid defensive characteristics, and steadily growing, sustainable dividend payments. This makes Canadian Dividend Aristocrats an ideal class of stocks to consider. One that stands out is **Brookfield Renewable** ([TSX:BEP.UN](#))([NYSE:BEP](#)). It has finally started delivering considerable value, gaining a whopping 75% since the start of 2019, and will rally higher for the foreseeable future.

Solid outlook

The key reason for Brookfield Renewable's strong performance are its solid results since the start of 2018. A combination of improved hydrology, acquisitions, newly commissioned assets, and operational improvements have boosted the volume of electricity produced, seeing it rise by 4% year over year for the first nine months of 2019. That gave revenue a solid boost, leading to a 16% year-over-year increase in normalized funds from operations (FFO). Cash available for distribution (CAFD) shot up by a stunning 65%.

More importantly, Brookfield Renewable reported a net profit of US\$7 million for the period compared to a US\$49 million loss a year earlier. It remains focused on delivering further value for unitholders. It is conducting a contract review aimed at re-contracting existing agreements for higher rates. Since the start of 2019, Brookfield Renewable has been able to secure higher prices in Colombia and Canada. Higher electricity production, and hence earnings, during the foreseeable future will be driven by recent

acquisitions, including the purchase of a U.S. 322-megawatt (MW) generation business and 200 MWs in China. Brookfield Renewable is also advancing the construction of 151 MW of assets, which are expected to be commissioned between the end of 2019 and 2021.

The quality of the business's assets coupled with its solid defensive characteristics, growing earnings, low volatility, and regular distribution hikes, where it has increased the payment for the last nine years to yield just over 4%. Rising earnings and particularly higher CAFD bode well for additional distribution hikes.

For these reasons, Brookfield Renewable is the one top stock every TFSA account holder should own. Over the last 10 years, it has gained a stunning 321%, or 15.5% annually, which increases to an impressive 460% or an average annual return of 19%, if all distributions paid were reinvested. By utilizing Brookfield Renewable's distribution-reinvestment plan, unit holders can reinvest distributions to acquire further units at no cost, allowing them to fully benefit from the power of compounding.

Foolish takeaway

Holding an investment in a TFSA eliminates the [corrosive effect](#) of taxes on investment returns, further accelerating the pace at which wealth is created and investment goals are achieved. While past returns are no guarantee of future performance, if you used your \$6,000 2019 TFSA contribution to purchase Brookfield Renewable today, added \$6,000 annually, and reinvested all distributions over the next 19 years, you could accumulate just over \$1 million. Once that target is achieved, it would be easy to cease reinvesting the distributions, instead, taking them as cash and withdrawing them tax-free from the TFSA, creating an annual tax-free income of around \$44,000.

CATEGORY

1. Dividend Stocks
2. 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. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/27

Date Created

2019/12/05

Author

mattdsmith

default watermark

default watermark