TFSA: How to Earn $8,700/Year in Passive Income That CRA Can't Tax!

Description

Your Tax-Free Savings Account (TFSA) is meant to be a vehicle to help Canadians build and grow wealth over the long-term.

Unlike the Registered Retirement Savings Plan (RRSP) however, the TFSA has no strings attached and is arguably a better fit for younger Canadians who've yet to reach peak income, have no desire to own a home, or don't want to put funds on lockdown until their expected retirement dates.

While the TFSA is seen as a shield from the Canada Revenue Agency (CRA) for those who stay under the allowed contribution limit, many Canadians should know that the CRA may dole out tax bills for those Canadians who've been going substantially over the "speed limit" with wealth creation in a TFSA via full-time trading of derivatives or speculative assets.

In simple terms, the federal government doesn't want to give full-time traders a tax break, nor do they want to incentivize speculative trading within TFSAs. Rather, the feds seek to provide all Canadians with a fair shot at unlocking the power of tax-free compounding over the long term.

But that doesn't mean you shouldn't take calculated risks, especially if you're a younger investor who has all the time in the world to make back any losses.

Consider **American Hotel Properties REIT** (TSX:HOT.UN), a 12.5%-yielding REIT that's been under pressure over the last three years, with shares getting cut in half from peak to trough.

It's an accidental high yielder that's a risky, speculative bet that could burn a hole in your wallet. Nevertheless, it's a play that could allow you to lock-in the massive yield alongside what could be substantial capital appreciation over a short period.

Best of all, you won't have to pay the CRA any taxes on the 12.5% yield (based on your invested principal) in you hold the name within your TFSA. The locked-in yield is yours to keep, even as shares appreciate and the yield falls back to its historical mean levels.

On the flip side, American Hotel Properties could slash its distribution entirely should pressure continue to weigh on the REIT that's fallen on hard times.

American Hotel Properties does have a plan and could be on the verge of a turnaround should all go according to plan. The REIT's property improvement plan (PIP), which should beef up AFFOs over the long haul, has been going rather smoothly of late, with several projects falling under budget.

Foolish takeaway

The REIT's move into higher end hotel real estate could pay off big-time, but don't expect a rebounding of shares overnight. What you can expect is $8,700 in tax-free annual income with a $69,500 investment in your TFSA.

The payout isn't the most stable in the world, but if you're a believer in management, you could have an opportunity to lock-in the passive income stream alongside what could be significant capital gains.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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