How to Transform $6,000 Into $470 a Year, Tax-Free!

Description

Your Tax-Free Savings Account (TFSA) is an invaluable tool that offers Canadians a higher degree of flexibility than a Registered Retirement Savings Plan (RRSP). The TFSA has fewer strings attached, and the funds within it can be used for just about anything.

If you're saving for your child's education, but it's later discovered that they have no desire to pursue post-secondary education, you can simply use your TFSA funds to finance your retirement, a down payment on a home, or withdraw the amount in cash without getting hit with a penalty for changing your mind about your original plans to use the funds.

With such flexibility, one can not only use their TFSAs to build wealth for the distant future, but also allow one to immediately improve their quality of living by turning their TFSA into a tax-free income stream, either partially or entirely.

For a young investor, growing one's wealth over the long haul is of utmost importance. But that doesn't mean one has to penny pinch and live frugally today with the hopes of living a better tomorrow. You see, it's all about balance. And with a tool as flexible as the TFSA, you have the freedom to strike a balance between income and growth.

Passive income isn't just for the retired

Many of today's young Canadians need an income boost to help pay the bills, and nothing is stopping them from converting a small portion of their TFSA into a generator of tax-free income when times get tougher. The TFSA can be used to save for retirement, but it's not limited to this. The TFSA can be used for a wide range of purposes and should circumstances change; one has the freedom to make the necessary changes as they see fit to relieve nearer-term financial pressures.

Come 2020, you'll be able to contribute another $6,000 to your TFSA. And if cash is tight, you may want to consider turning your next contribution into a ~$500/year tax-free income stream with a higher-yielding investment like **Inovalis REIT** (TSX:INO.UN), so you can sustainably relieve some of your current financial pressures by spending dividends (and interest) and not your principal.

At the time of writing, Inovalis sported a 7.7% yield, which, while remarkably high, is far safer than most other securities with similarly sized yields. Moreover, as a smaller entity, Inovalis can grow its AFFO (and its distribution) at a quicker rate than larger, diversified REITs that may be suffering from diseconomies of scale.

The most remarkable part of Inovalis is that the REIT is not under tremendous pressure, despite its sizeable distribution yield. The large distribution is, in fact, by design. As the European-focused REIT continues building its property portfolio, investors have an opportunity to rake in handsome (and likely growing) distributions without having to worry about the possibility of distribution reductions.

Foolish takeaway

With one of the safest nearly 8% yields out there, Inovalis makes the "4% rule" look dead.

For investors who could use an extra $500 or so per year, buy shares of the REIT with your next contribution and use the monthly income to help you in the now, instead of sacrificing your quality of life today with the hopes of a better one in the future.

With the TFSA, you have all the freedom to strike the perfect balance.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:INO.UN (Inovalis Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/26

Date Created
2019/12/23
Author
joefrenette