Canada Revenue Agency: 2 High-Yield Stocks to Hold in Your TFSA for 100% Tax-Free Retirement Income

Description

If you steer clear of a few TFSA crimes, your capital gains and the income derived from investments held within your TFSA are completely free from taxation.

There have been instances where the Canada Revenue Agency (CRA) has taxed substantial gains earned by people using their TFSAs for business trading activities, but there are no reported incidences (to my knowledge) of dividends or distributions that have been taxed just because their yields are too high.

Maximizing the yield of your TFSA portfolio is not a TFSA crime in itself, and you won't get dinged by the CRA for investing in that 12%-yielding REIT. However, you do need to understand the elevated risks that come with higher yields. Like with any security, the risk/reward trade-off must be scrutinized to minimize the chances of a loss.

Consider the following securities yielding 8%–12% if you're looking to give your TFSA an income jolt:

American Hotel Income Properties REIT

American Hotel Income Properties REIT (TSX:HOT.UN) sports a 11.7% yield at the time of writing, making it one of the most bountiful (but not reckless) income investments on the TSX index.

At first glance, you'd think that HOT is overdue for a massive distribution reduction. Shares are down considerably (around 40%) from all-time highs, and the payout ratio leaves little to no room for further extended bouts of weakness.

While it's easy to take a rain check on HOT and its outsized distribution, I am a fan of the forward-looking trajectory and the opportunity to "lock in" the near-12% yield before management's property improvement plan (PIP) has the chance to meaningfully accelerate AFFOs and lower the payout ratio (preferably below 90%).

The PIP has gone quite well, with many projects coming under budget. Now that most capital-intensive renovations have already been completed, I do think HOT could correct to the upside, and the yield could revert toward mean levels, making HOT a worthy play for aggressive income investors and deep-value investors alike.

Pizza Pizza Royalty

Pizza Pizza Royalty Corp (TSX:PZA) sports a 8.5% yield and is behind the beloved Canadian pizza chains Pizza Pizza and Pizza 73, both of which have succumbed to the belt-tightening of Canadian consumers and the broader decline in the fast food scene.

The appetite for fast food has gone down of late, but as defensive holdings that fair well in deep recessions, I do think resilient fast food chains like Pizza Pizza will pull through. The most prominent sore spot for Pizza Pizza, though, is the rise of competition. Through food delivery services like Skip the Dishes, options for ordering in now go above and beyond just pizza.

While Pizza Pizza has been keeping up with the Joneses in terms of industry trends such as the inclusion of plant-based meat substitute offerings (alt-meat toppings and cauliflower crusts) and robust e-commerce platforms, the firm's hands are tied because of Pizza Pizza's limiting capital return structure. As a royalty company, a vast majority of the cash flows back into the pockets of shareholders, leaving little room to reinvest in technological initiatives relative to the competition.

Unfortunately, I see the royalty structure as a contributing factor to Pizza Pizza's recent flop. As the fast food scene settles, though, consumers will return. In the meantime, there's a fat 8.5% yield to collect while investors wait for the tide to turn.

CATEGORY

1. Dividend Stocks
2. Investing
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TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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