TFSA Investors: How to Earn $2,780 a Year and Pay ZERO Tax to the Canada Revenue Agency!

Description

Do you want to earn $2,780 in tax-free income every year and pay *none* of it to the Canada Revenue Agency?

Believe it or not, you can.

Thanks to Tax-Free Savings Account (TFSA) rules, you can buy stocks and pay no taxes on the gains and dividends – or on any funds you withdraw.

In 2020, you can contribute up to $69,500 in a TFSA. That's enough to generate $2,780 in annual income at an average portfolio yield of 4%. While it's not a life-changing amount of money, it could be a nice supplement to CPP and OAS, or just a nice little source of passive income to grow your cash savings. Here's how you could achieve such a passive income stream by building up investments in a TFSA.

Hold dividend stocks in your TFSA

By far the best income-producing investments to hold in TFSAs are dividend stocks. When most investors think of income, bonds are the first thing that comes to mind, but dividend stocks offer *far* higher yields than government bonds, and are much easier to buy than corporate debt.

Canadian dividend stocks, in particular, are offering some pretty high yields right now. Canadian markets haven't done as well as American markets over the past decade, which is mostly a bad thing, but it has had the effect of pushing yields on Canadian stocks higher. As a result, many sectors, like banks and utilities, now have average yields at or above 4%.

An excellent stock to consider

If you're looking to establish a tax-free $2,780 income stream in your TFSA, one great stock to consider as part of your portfolio is **The Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Before I go further, let me stress that this is only highlighted as a potential stock to include in a widely diversified portfolio of stocks, bonds, and ETFs. As always, diversify across many investments, and do your own research before buying any individual stock. TD might not be the right stock for your investing goals or risk tolerance.

With all that said, if you invest $69,500 in a portfolio consisting of TD and other securities with yields in the same range, you'll get about $2,780 in annual income. That might not seem like much, but remember that TFSA income is 100% tax-free, so it's equivalent to a far higher amount of taxable income. Not only that, but TFSA income doesn't count as taxable income by CRA rules, so holding TD in a TFSA won't put you in a higher tax bracket.

Over the years, TD has not only paid but also increased its dividend, leading to growing income for shareholders. This is exactly the kind of thing investors need to keep ahead of inflation. You never know whether your pension benefits will grow or shrink over time, but a stock with a long history of dividend increases can keep your passive income rising. What more could you ask for than that?

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Date
2025/07/22
Date Created
2020/01/28
Author
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