TFSA 101: How to Earn $260 Per Month and Pay No Tax to the CRA

Description

Canadians of all ages are trying to find ways to boost their incomes without having to give more money to the Canada Revenue Agency (CRA).

Rising costs of living are hitting people at all points in their careers. Young professionals are dealing with expensive housing in areas where they are likely to find the best jobs. Families are trying to find a way to make ends meet while covering daycare costs. Retirees are wondering if their OAS and CCP increases are going to keep up with the real-life changes in their monthly expenses.

Working a side job can bring in more money, but it wipes out important free time and can bump you into a new tax bracket.

One way to increase earnings without having to hand over part to the CRA is to generate the gains on investments held inside a TFSA. The TFSA contribution limit increased by $6,000 in 2020 and the cumulative level is as high as $69,500 per person.

Let's take a look at two dividend stocks that might be interesting picks to start a diversified TFSA income fund today.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) used to be TransCanada, but the company decided that it needed to change the name to better reflect the overall operations.

TC Energy is a leading player in the North American energy infrastructure sector with extensive natural gas and oil pipelines in Canada, the United States, and Mexico. The company's Keystone XL project, which will move oil from Canada to the United States, has run into long delays but is slowing moving forward and should eventually be completed.

TC Energy's other businesses include power generation assets and gas storage facilities.

The ongoing $30 billion secured capital program should provide enough revenue and cash flow growth to support ongoing dividend hikes of 8-10% per year over the medium term. Investors who buy the stock today can pick up yield of 4%.

Most of the assets operate in regulated sectors. This means the revenue stream should be predictable and reliable. TC Energy has a long track record of delivering solid returns to investors and that should continue.

CIBC

CIBC (TSX:CM)(NYSE:CM) is the smallest of the Big Five Canadian banks. This means the stock is often overlooked by investors who are searching for a financial company to add to their portfolios.

The bank has made a few large blunders in the past, and while the current management team appears to be making strategic moves to balance out economic risk, the market still isn't willing to give CIBC a multiple that is comparable to its peers.

CIBC has invested more than US$5 billion in recent years to acquire assets in the United States, and the American operations now account for roughly 17% of adjusted income. That could grow in the coming years through additional takeovers. The presence south of the border helps hedge against potential trouble in the Canadian economy.

CIBC is very profitable and has raised the dividend steadily since the financial crisis. The stock appears cheap at just 9.7 times trailing earnings. Investors who buy today can pick up a 5.3% yield.

The bottom line

TC Energy and CIBC pay attractive dividends and should be solid picks for a TFSA income portfolio.

The **TSX Index** is home to many top dividend payers, and getting an average yield of 4.5% should be quite easy on a basket of these stocks.

A $69,500 TFSA would generate $3,127.50 per year in tax-free income. That's an extra $260 per month!

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