TFSA Investors: Pay $0 Taxes on Investment Gains in 2020

Description

Every year since 2009, the Tax-Free Savings Account (TFSA) brings financial windfall to account holders. If you're an investor, you should be taking advantage of the wonders of the TFSA. For 2020, the contribution space is $6,000 and customary you can again avoid paying tax on any investment gains.

The novelty of the TFSA is one of a kind. You can withdraw cash as needed, and you don't need to pay a tax penalty whatsoever. Furthermore, the TFSA contribution room accumulates even if you don't contribute in a year. The unused contribution room carries over to the next year.

Instant windfall

Among the eligible investments that are generally placed in a TFSA are dividend stocks. Many investors prefer dividend investing because you can grow balances faster.

A diversified real estate investment trust (REIT) like **H&R** (TSX:HR.UN), for example, pays a hefty dividend of 6.44%. This real estate stock will reward your $6,000 contribution with a $386.40 tax-free windfall.

Assuming your available room is $50,000, the tax-free gains amount to $3,220.

H&R's portfolio consists of high-quality office, retail, multi-family or residential, and industrial properties. The worth of the properties that has a total of 41 million square feet of leasable space is about $14.4 billion.

The market capitalization of H&R is currently a massive $6.1 billion. This REIT generates stable rental payments because of the long-term leasing contracts with credit-worthy tenants. Also, the said contracts have built-in escalation clauses.

The advantage H&R has over industry peers is its full diversification. Of the four major segments, the office segment is the largest. It's a combination of single-tenant and multi-tenant office properties.

When you invest in this REIT, you're playing the role of a landlord with ownerships in enclosed shopping centres, single-tenant retail properties, and multi-tenant retail centres too.

Long-term holding

TFSA investors, for the long term, have **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) as the core holding. This $49 billion bank is a logical choice if you seek a "buy-and-hold" asset.

Start by looking at the bank's dividend track record. CIBC has been paying dividends since 1868 and counting. Next, the fifth-largest lender in Canada offers the highest dividend (5.18%) among the Big Five in the prestigious group.

A $200,000 investment in CIBC can balloon to $549,152.96 in 20 years. The monthly tax-free income is $10,360, which should be enough to supplement the CPP and OAS pensions.

Finally, the dividends are safe and enduring. The bank maintains a payout ratio of 50% to 60%, with plenty more for reinvestment.

The annual growth estimate over the next five years is 3.19%. CIBC should be hitting the target as it streamlines human resources. The bank wants to bring down the non-interest expense as a percentage of revenue. Management is after service efficiency and cost savings to be able to face the headwinds.

Financial bonanza

In conclusion, the primary objective of opening a TFSA is to increase the chances of meeting your financial goals. The choices of investments matter too. High-yield stocks like H&R and CIBC should produce financial bonanza, whether in the short or long term.

CATEGORY

1. Bank Stocks
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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:HR.UN (H&R Real Estate Investment Trust)

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