TFSA Investors: Invest $6,000, Multiply Your Money, Pay No Tax!

Description

Today, you can invest $6,000, multiply your money, and pay no tax! While this sounds too good to be true, it isn’t. With the creation of the Tax Free Savings Account (TFSA) in 2009, Canadians have the opportunity to invest their hard earned cash without tax consequences. This means you pay no tax on any capital gains, dividends, or interest earned in this account.

You can use the TFSA for a variety of investments, including GICs, bonds, stocks, and mutual funds. There are some specific rules related to the TFSA, so be sure to talk with your bank beforehand. Overall, it is free and easy to make an account.

Beware of TFSA savings accounts

There are two ways you can use the account. First, many banks offer a high interest savings TFSA. In big print they offer you a “high” 2% interest rate. Be cautious with this trick. Often in small print below it will state that the interest rate is only good for 90 to 180 days; after that, the rate drops to a mediocre return of 0.5% or worse.

These accounts really do not maximize the potential in a TFSA. The entire point is for you to pay no tax on investment gains. You will hardly earn anything from 0.5% interest rate, so your tax savings will be minimal.

As interest rates will likely stay low for longer, there is little point using your precious TFSA space as a savings account. After inflation, you are essentially losing money at that rate.

Pay no tax on stock market gains

The second way is to have your stock broker create a TFSA trading account. You should use your TFSA to earn the best possible gains at the least amount of risk. As you can't apply capital losses from the TFSA account against your overall income at year-end tax time, choose solid companies with a strong growth trajectory, limited downside risk and you'll pay no tax on the gains.

The present bear market is a good time to pick up some deals with your 2020 $6,000 TFSA contribution. **Richards Packaging Income Fund** (TSX:RPI.UN) presents a good opportunity to potentially multiply your TFSA capital.

Richards is the largest packaging/container distributor in Canada and third largest in North America. It primarily serves customers in the cosmetics, healthcare, and food/beverage industries.

It is an incredibly solid company and pays a nice 3.15% yield. Over the past five years, it has beaten the TSX by a whopping 171%! A company like this is perfect stock to pay no tax on. This company doesn't mess around. It doesn't have a flashy website or investor page. It just operates and operates well.

Management always under-promises and over-performs. The company has steadily grown revenue by around 5%/year for the past three years. Yet, in that same time frame, it increased free cash flow by almost 100%!

It is largely a play on the strength of the overall North American economy, which might be a concern, especially right now. However, in its 2019 year-end statement, management mentioned that it saw a significant uptick in healthcare-product demand resulting from the COVID-19 crisis. It may actually benefit while demand for health-services is temporarily elevated.

Just in case the company does face a business slowdown, it has a very conservative balance sheet (0.3 times debt to adjusted EBITDA). If it maintained 2019 results this year, it could easily pay off its entire $15 million credit facility just from free cash flow, if necessary.

Enjoy your TFSA and pay not tax

As with many companies, 2020 might be a challenging year for Richards Packaging. Yet an economic crisis, could actually create consolidation opportunities to expand its already leading market position.

Any market dip is a good opportunity to invest some of your $6,000 contribution into this quality, growth stock. Five years from now you, you might look back and be thankful you doubled your money and kept all the gains.

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2. Investing
3. Stocks for Beginners

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1. TSX:RPI.UN (Richards Packaging Income Fund)

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