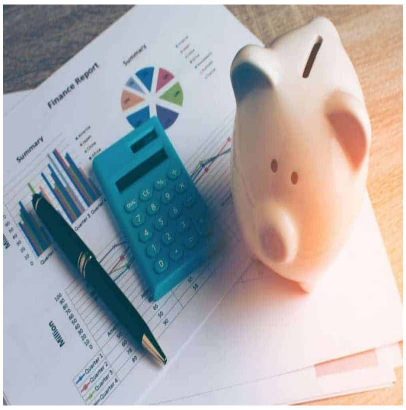

Canada Revenue Agency: A TFSA-Worthy Top Pick for Big, Untaxable Income

Description

Although the Canada Revenue Agency taxes Canadian dividends at a favourable rate, the effects of taxation can really add up over time.

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With long-term compounding taken into consideration, the effects of taxation can mean the difference between a comfortable retirement and a frugal one. Fortunately, there is an answer for Canadians who want to keep more of their money while legally not having to give the taxman a slice of the pie: the Tax-Free Savings Account (TFSA).

Canada Revenue Agency: Shield your investment income with your TFSA

With rock-bottom interest rates that could be on the verge of going negative, you're not going to want to use your TFSA as a mere savings account, unless, of course, you're just using a portion of your TFSA proceeds to hold your emergency fund or maintain ample liquidity through these unprecedented times.

If you're young, have a sufficient emergency fund in place, you're going to want to use your TFSA as a Tax-Free Investment Account (the TFSA should *really* be called the TFIA!) and use it to purchase shares of businesses that can pay you handsome dividends (or distributions) that are positioned to grow at a sustained, above-average rate over time.

That way, you'll have a tax-free income stream. If you pick your securities carefully, you'll nearly guarantee yourself a high single-digit percentage raise every single year, while removing taxes from the Canada Revenue Agency from the equation — something that's unsustainable for those in the labour force.

If you've yet to invest your 2020 TFSA contribution ($6,000), or you've been putting off contributing for the last few years, now is as good a time as any to catch up and start investing in battered income-paying securities, while their shares are down (and their yields, up) on the coronavirus (COVID-19) crisis.

Lock in a 15.3%-yielding distribution for your TFSA, so the Canada Revenue Agency can't tax it

Without further ado, consider shares of **H&R REIT** (TSX:HR.UN), a battered security within the hard-hit real estate sub-industries of office and retail. The coronavirus has crushed both retail and office properties, but I see the damage as excessive when it comes to the diversified REIT that could rebound in a big way over the coming years, as it did following the unprecedented collapse in 2007-08.

H&R REIT was a go-to income investment option for Canadian investors for many years. The lower degree of volatility relative to the broader markets and the outsized distribution made the name a staple for conservative income investors. When the coronavirus hit, though, none of the low volatility from H&R's past mattered, as shares crumbled like a paper bag, causing its 6% yield to more than double to 15.3%, where it sits today.

Imagine a 15.3%-yielding distribution that's off-limits for the Canada Revenue Agency.

The yield is growing suspect at these heights, though, and while the distribution is becoming stretched amid the rise of "working and shopping from home," as many look to self-isolate to minimize their risk of contracting the deadly COVID-19.

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Retail and office properties are becoming barren wastelands these days, and with many tenants feeling the financial pressure, landlords are going to need to chase tenants for their month's rent and form rent-deferral plans with each tenant whose cash flows were disrupted by the coronavirus crisis.

Foolish takeaway

As a retail and office REIT, H&R looks like a dud, but the damage, I believe, is overblown since H&R collected 83% of rents payable on April 1.

Even if a distribution is reduced, I see it recovering once we make a return to normality and the ability of its tenants to pay recovers in conjunction with the economy.

Still, there's a risk that firms renting office space may stick with telecommuting for good. Regardless, H&R is too cheap given the re-purposing potential and the outsized income that the Canada Revenue Agency won't be able to touch if held in your TFSA. If you're a retiree who depends on income, start by nibbling on the name with your TFSA, and if you're a risk-tolerant youngster, feel free to start backing up the truck today.

Stay hungry. Stay Foolish.

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