
Canada Revenue Agency: 1 TFSA-Worthy Dividend Stock for Tax-Free Income

### Description

Your Tax-Free Savings Account (TFSA) is an invaluable tool for earning income the Canada Revenue Agency (CRA) won't tax. If you play by the rules and stick with a disciplined long-term plan, your TFSA can not only help accelerate the growth of your retirement nest egg, but it can also help get you through the tough times as they happen.



The COVID-19 pandemic has taken a toll on the global economy. Many Canadians suddenly found themselves in a tough financial situation. Small businesses are shut and layoff continue across the country.

The Canada Emergency Response Benefit (CERB) was meant to help those most affected navigate through these difficult times. However, the $2,000 monthly amount has proven to be insufficient for many, especially for those renting in Vancouver or Toronto. In these real estate hotspots, the monthly rent for a two-bedroom apartment often exceeds $2,000.

## Leverage your TFSA for monthly income while keeping the Canada Revenue Agency at bay

If you have ample savings in your TFSA, you have the power to give yourself a sustainable income boost – without digging into your savings.

It doesn't matter if you've previously been using your TFSA as a mere savings account or for high-growth investments.

Like switching the gears in a car, you can turn your TFSA into a monthly income stream by rotating into reliable dividend-paying securities. In an era where dividend (and distribution) cuts are becoming normalized, though, you'll need to pick your spots very carefully. Otherwise, you could be at risk of holding the bag should a cash-strapped firm take the axe to its dividend.

## Defence wins championships

Given the sky-high uncertainties plaguing this economy, you'll need to do more than just analyze the current state of a firm's balance sheet to steer clear of potential dividend cuts. You'll need to analyze the robustness of a firm's cash flow stream. Further, you'll need to assess how it stands to be affected should the pandemic continue through year-end (or spill over into 2021 and beyond).

Consider shares of **Shaw Communications** (TSX:SJR.B)(NYSE:SJR), a Canadian telecom company. I view its monthly dividend as a glimmer of certainty in these most uncertain times. The stock sports a 5.2%-yielding dividend. While not the most bountiful, it is far safer than many others.

Shaw may not be in the best financial health right now. It has a meagre 0.4 quick ratio (lower than desired) and a 0.9 debt-to-equity ratio (a bit on the high end). But it is a major telecom player offering a vital service in the "stay-at-home economy."

The telecoms are a great way to play defence. But even they can get hit in a crisis that causes aggregate liquidity to dry up. What makes Shaw stand out is its greater focus on the lower end of the wireless market through Freedom Mobile. Freedom offers a greater value proposition to Canadians who don't mind sacrificing network quality to save money.



As Canadians look to cut expenses across the board, they'll likely move away from "best-in-class" wireless providers to cheaper ones. As telecom contracts expire during the year, I wouldn't be surprised to see Freedom Mobile get a boost to its subscriber growth at the expense of its "superior" Big Three peers in a rush to save cash.

## Foolish takeaway

The way I see it, Shaw is the most defensive player in a defensive industry, making its cash flow stream look absurdly robust in the face of what could be a very severe recession (or depression). So, if you're looking for tax-free monthly income that won't be taken away from you (through dividend taxation by the Canada Revenue Agency or a dividend cut), consider stashing Shaw in your TFSA today.

Stay hungry. Stay Foolish.

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