TFSA: How to Earn $420 in Monthly Income That the CRA Won’t Tax

Description

Your Tax-Free Savings Account (TFSA) is a powerful tool that’s not to be taken for granted. It can shield your monthly investment income from taxation by the Canada Revenue Agency (CRA). In times of crisis, when personal liquidity is drying up, and dividends cuts are becoming normal, your TFSA income stream must be robust enough to have your back.

You don’t need to settle for companies at risk of taking the axe to their dividends. It’s times like these when Canadians need the income most. Income investors should resist the urge to reach for super-high-yields that may be nothing more than an illusion.

That’s why investors should look to resilient dividend stocks that are safe from potential dividend reductions. If you hold such resilient dividend payers in your TFSA, you’ll take taxation out of the equation and have more money in your pocket to get through these horrific times without having to rely solely on government-transfer payments like the Canada Emergency Response Benefit (CERB).

Turning your TFSA from a grower into an income provider

Maybe you’re a millennial who’s been regularly contributing while using the proceeds to invest in growth stocks with your TFSA. You should feel no shame in converting your growth-oriented portfolio into an income-oriented one, especially if you’ve been put in a difficult financial situation as a result of the coronavirus crisis.

Yes, it’s good to build your wealth for your retirement. But your TFSA can be a financial lifeline to help you get through difficult times like these. After this ordeal is over and you’ve regained control of your personal finances, you can always rotate back into the dividend-free growth stocks.

Let’s say you’ve got a TFSA that’s worth $100,000. With a 5% yield, you’ll be able to land $5,000 a year in tax-free passive income. That works out to around $420 per month, enough to pay off a few bills or part of your rent.

You could certainly double or even triple your monthly income with some of the super-high-yielding

REITs that have cratered. But I'd argue that it's much better to stick with firms that you know will not be depriving its investors of dividends or distributions over the coming months.

If you've been laid-off or furloughed, the last thing you want is the company you've invested in to take promised dividends away just as your monthly bills come due.

A stable dividend-payer that's perfect for your TFSA

Consider shares of a firm like **Shaw Communications** (TSX:SJR.B)(NYSE:SJR), which sports a 5.1% yield that's about as safe as they come. The telecom industry is known to have more robust operating cash flows in times of economic hardship, leaving the dividends on stabler financial footing than average.

What entices me about Shaw over its peers is the fact that it's a low-end, "inferior" wireless player in Canada, with lower monthly rates through its wireless subsidiary, Freedom Mobile. Freedom's network isn't on par with its bigger brothers, at least not yet. In times like these, where cash is scarce, network quality matters far less than the potential for savings.

Given Freedom's low-cost nature, I think Shaw looks like the best Canadian telecom to ride out the pandemic and coming recession for TFSA investors. Freedom's bills are far less hefty, on average. As a result, I suspect it will see a lower rate of deferrals and defaults.

Foolish takeaway

Shaw is one of many super-defensive companies that can keep their dividends intact as most other firms slash theirs. If the coronavirus crisis has you in a tough financial position, consider stashing shares in your TFSA and collecting the monthly income that the CRA won't be able to touch.

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