Coronavirus Canada: Your TFSA Comes in Handy Now

Description

COVID-19 is cruel to mankind. From a macroeconomic perspective, it has reduced demand for products and services in many industries, particularly in travel, hospitality, and energy.

Many businesses have lost tonnes of revenue in the last couple of months, and too many people have lost income. I hope it's not too late for businesses to turn a good profit this year and translate to a lower unemployment rate, as parts of Canada are re-opening.

The country's April's unemployment rate of 13% is simply too high. The last time the Canadian unemployment rate was this high was 38 years ago!

During economic downturns such as this, a Tax-Free Savings Account (TFSA) will come in handy for Canadians.

Tax-free withdrawals

Some Canadians are getting income from the Canada Emergency Response Benefit program. Others may not be eligible, and are forced to work part-time due to COVID-19. In any case, many Canadians are earning lower income than usual, which may not be enough for their cost of living.

Certain Canadians use a portion of their TFSA as an emergency fund because all TFSA withdrawals are tax-free.

So, if you've been contributing to your TFSA, you can easily withdraw money from it now for your current needs.

You won't lose any TFSA contribution room. Any withdrawal amounts are added back to your TFSA contribution limit in the following calendar year.

Let's say you have maxed out your TFSA and withdraw $6,000 from your TFSA this year. You can contribute $6,000 in addition to the contribution room for 2021, which will likely be $6,000, for a total of

$12,000 as soon as January 1, 2021.

2020 market crash? Time to buy stocks

You may be some of the lucky Canadians who are still working full time. If so, the TFSA is also your best friend right now. If you haven't maxed out your TFSA contribution, you should!

Stocks are far cheaper than they were several months ago before the market meltdown. Although the stock market has bounced, a bunch of quality stocks is still trading at good long-term values.

Here's a blue-chip dividend stock you can consider for your TFSA.

Royal Bank of Canada (TSX:RY)(NYSE:RY) is an A-grade banking leader that deserves your attention. RBC stock's diversified business should keep its earnings relatively resilient, which is why it continues to trade at a premium against its peers.

At writing, it trades at just under $84, which translates to a normalized price-to-earnings ratio (P/E) of about 9.4. Its long-term normal P/E is about 12.2. So, it trades at a discount of roughly 23%.

By holding the banking stock for three to five years, investors can get total returns of about 9-13% per year based on a very modest earnings-per-share growth rate of approximately 3%.

RBC stock's 2020 payout ratio will be slightly higher at about 55%. However, you can expect the payout ratio to normalize at about 50% in the future.

You can secure a dividend yield of about 5.2% in RY stock today. That's a big boost in passive income that you can earn in your TFSA tax-free compared to GICs! Additionally, you'll likely get an increasing dividend from the Canadian Dividend Aristocrat.

The Foolish takeaway

No matter if you need money now or saving and investing for a rainy day in the future, the TFSA is a wonderful tool to use today.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

Date
2025/08/24
Date Created
2020/05/20
Author
kayng