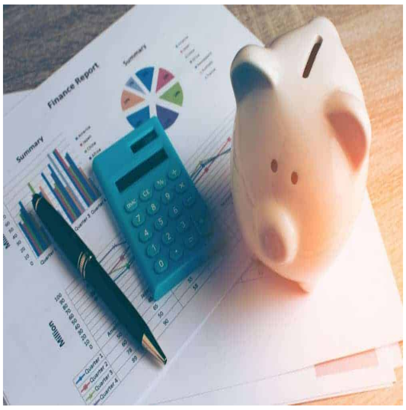

TFSA Investors: How to Earn $420 in Monthly Income and Pay Zero Taxes to the CRA

Description

The Tax-Free Savings Account (TFSA) is one of the most flexible investment vehicles for Canadians. Contributions to a TFSA are not tax-deductible. However, any withdrawal from this account in the form of capital gains or dividends are tax-free. The program began in 2009 and all Canadians over the age of 18 are eligible to contribute.

The maximum amount that you can contribute to the account is limited by your TFSA contribution room. This means in case you overcontribute to your TFSA, the excess amount will be subject to CRA (Canada Revenue Agency) taxes of 1% per month. The TFSA contribution limit for 2020 stands at $6,000, while the total TFSA contribution limit is $69,500.

You can look to invest this amount in top-quality dividend stocks such as **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), known as Scotiabank.

Dividend stocks such as BNS will help TFSA investors create massive wealth

The recent market weakness has sent Canadian banking stocks lower. The ongoing COVID-19 pandemic has decimated energy companies, a sector that is one of the pillars of the Canadian economy.

Canadian banks are likely to have huge exposure to oil companies. Further, higher unemployment rates might increase the risk of mortgage defaults, making Scotiabank and its peers vulnerable. We have seen that Warren Buffett trimmed his exposure to the financial sectors. Buffett reduced stakes in **Goldman Sachs** and **JP Morgan** according to the latest SEC filings.

These concerns have driven the BNS stock price lower by 35% in the last three months. Scotiabank is one of the top five Canadian banks, with a market cap of $60.6 billion. This considerable decline has meant BNS stock has a juicy forward yield of 7.2%.

So, if you were to invest $69,500 in this banking giant, annual dividend payments would amount to $5,004. This indicates monthly dividend payments of close to $420.

BNS stock is a solid long-term bet

Scotiabank generates approximately 76% of its revenue from retail banking and the rest from commercial banking. At the end of the fiscal first quarter of 2020, its total loan book stood at $351 billion. Residential mortgages accounted for 62% of total loans, followed by personal loans at 20%, business loans at 16%, and credit cards at 2%.

The bank’s high exposure to Canada’s housing sector might concern investors, and this would have driven shares lower in 2020. In the last 12 months, the company’s total loans and acceptances have grown by 6% from $331 billion. The COVID-19 pandemic is likely to be a near-term headwind. This means employment rates should move higher once businesses reopen and normalcy resumes.

Scotiabank stands to benefit from its diversified operations. It is the third-largest bank in Canada and has a huge market presence in the United States, Columbia, Chile, Brazil, Mexico, and Peru. In the first quarter, the company’s international banking business delivered strong loan and deposit growth in Latin American emerging markets.

Between 2009 and 2019, Scotiabank increased dividend payments at an annual rate of 6%. Comparatively, its earnings grew at 8% in this period. Its lower valuation, attractive dividend yield, and historical growth make Scotiabank stock a must-buy for value, income, and contrarian investors.

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araghunath