TFSA: How to Earn Over $400 in Monthly Income the CRA Can’t Touch

Description

The deadline for most Canadians to submit their income tax to the Canada Revenue Agency is just around the corner. Earlier this month, I’d discussed how changes could be coming to the Canada Emergency Response Benefit (CERB). Over eight million Canadians have taken advantage of the CERB, but it only stretches for four months. The economic reopening across Canada’s provinces is progressing slowly and with minimal clarity from their respective governments. Now is a good time for Canadians to explore how their TFSA can churn out income going forward.

Why the TFSA is a fantastic income vehicle

Since its inception, the TFSA has attracted attention for the potential it offers to growth investors. Most Foolish readers are familiar with the story of a TFSA millionaire. Hey, maybe some of you have reached that illustrious milestones yourselves. The TFSA is great for growth investors, but it can also be an excellent income vehicle.

The current cumulative contribution room in a TFSA is $69,500. Today, I want to explore how investors can gobble up over $400 in monthly dividends without having to fork over anything to the Canada Revenue Agency. In this hypothetical, we’re going to play with $65,000 of that contribution room. That leaves us with a little left over. Let’s dive in.

TransAlta Renewables: A long-term TFSA hold

TransAlta Renewables is a utility that develops, owns, and operates renewable power generation facilities. Canada may experience a more aggressive push toward renewable energies after the COVID-19 pandemic, especially considering the struggles we have seen in the oil and gas sector. Shares of TransAlta Renewables have climbed 10% year over year as of close on May 25.

The stock last closed at $14.01 per share. In our scenario, we would purchase 1,425 shares that comes in under a $20,000 price tag. TransAlta Renewables pays a monthly dividend of $0.07833 per share. This represents a strong 6.7% yield. Our 1,425 shares in a TFSA would net $111.62 per month in tax free income.

Extendicare

Extendicare provides care and services for seniors in Canada. The COVID-19 pandemic has highlighted the need for greater investment in Canadian long-term-care (LTC) facilities. Demand for LTC beds is set to soar over the next decade. Extendicare is poised to play an important role.

Shares of Extendicare last closed at $6 per share on May 25. In this example, we will buy 3,335 shares of Extendicare that put us just over a $20,000 purchase price. Extendicare last paid out a monthly distribution of $0.04 per share. The stock would pay out $133.40 per month in our hypothetical TFSA.

Exchange Income

Exchange Income is engaged in aerospace and aviation services and equipment, and manufacturing businesses on a global scale. Its shares have dropped 43% in 2020 so far. Aviation has been hit hard, but Exchange has stated that its manufacturing segment is an essential service and is operating in line with expectations.

Shares of Exchange Income last closed at $24.32 on May 25. In our hypothetical, we will purchase 1,025 shares of this stock. That works out to a price tag just under $25,000. The company last announced a monthly dividend of $0.19 per share. In this scenario, TFSA investors would be able to gobble up $194.75 per month in tax-free income.

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aocallaghan