# The TFSA Can Help You Earn $2,000/Month of Tax-Free Income

### Description

The COVID-19 pandemic has reiterated the need for passive income, as many Canadians became jobless. The CRA acted with urgency and loosely approved $2,000/month in Canada Emergency Response Benefit (CERB) to help people meet their basic living expenses.



After the pandemic-driven lockdown eases, this benefit will vanish, and beneficiaries will be taxed on the CERB payments. Canadians who got the CERB payment, even though they were not eligible for it, will have to return the amount to the CRA when they file their taxes next year.

The Tax-Free Savings Account (TFSA) can help you earn an income equivalent to the CERB payment. Unlike CERB, the passive income in your TFSA will be tax-free, and it will grow over the years.

## Make your TFSA earn for you

During the 2009 financial crisis, the Canadian government created TFSA to encourage people to save for the future. Individuals can contribute a certain amount of their after-tax income to their TFSA to buy stocks, bonds, REITs, and ETFs. The income earned through dividends, interest, and capital gains is tax-free. Hence, it is better to put your highest-income investments in your TFSA.

In these uncertain times, when the job market is shrinking and liquidity is drying, Canadians need stable income. It is the right time to switch your portfolio to high-income investments and make your TFSA earn for you. The COVID-19 pandemic has created opportunities in dividend stocks like REITs, banks, and utilities. These stocks are trading near their five to 10-year lows, as the pandemic-driven economic downturn has started to impact their cash flows.

REIT shares have halved, increasing their average yield from a 3-5% range to 5-10% range, as noted by **BMO Capital Markets** analyst Jenny Ma. Among REITs, **RioCan REIT** (TSX:REI.UN) has a dividend yield above 10%. The top five Canadian banks are offering an average dividend yield of 6%. Among them, **Scotiabank** and **CIBC** have a dividend yield above 7%. Major utility stocks are offering an average dividend yield of 5%, of which **Canadian Utilities** and **Capital Power** have a dividend yield above 5%.

## How can you earn $2,000/month

Over the last 10 years, the **TSX Composite Index** has increased at an average annual rate of 5.4%. In these 10 years, if you have been annually investing $5,000 in blue-chip stocks, by now, you would have over $330,000 in your TFSA. If you liquidate your current portfolio to buy high-yield REITs, utilities, and bank stocks, you can earn $2,000 per month in tax-free dividend income. However, this dividend income comes with its risks.

The pandemic-driven lockdown has left many shops and offices deserted. If the lockdown extends, tenants will struggle to pay rent, thereby affecting REITs' funds from operations.



In May, H&R slashed its dividend by 50%, as 20% of its tenants did not pay rent. Even RioCan's funds from operations have taken a hit. Still, it has maintained its dividend per share in May and expects to maintain it throughout the COVID-19 crisis, as it did during the 2008 financial crisis. CIBC and Capital Power are also likely to maintain their dividends per share.

In the worst-case scenario, if RioCan, CIBC, and Capital Power halve their dividends, you can still earn $1,000 per month in dividend income. As the economic environment gradually improves, these stocks will recover, offering capital gains.

## It is never too late to start contributing to TFSA

Even if you have never contributed or even opened a TFSA, it is the right time to start saving. Some high-income stocks are trading at record-low prices, giving an opportunity to earn an average yield of 7%.

The TFSA's annual contribution limit for 2020 is $6,000. A 7% yield can fetch you $420 in dividend income. If you are over 28 years and have a lump sum amount, you can invest up to $69,500 in your TFSA and earn more than $4,500 in dividend income. The best part is, the CRA can't tax this income.

High dividend yields may look attractive, but they also signal a dividend cut. The trick is to invest in companies with a strong balance sheet that can withstand the downturn and return to growth when the economy recovers.

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2. TSX:BNS (Bank Of Nova Scotia)
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