TFSA Users: $10,000 in This 6.38% Stock Pays $638 Per Year

Description

Have you been maximizing your Tax-Free Savings Account (TFSA) in 2020? There are valid reasons you should be increasing your savings, especially during times of crisis.

High-yield but safe dividend stocks will provide you with cash flows that can serve as emergency money when the need arises. When the investment is within your TFSA, all interest, dividends, and capital gains are tax-free. You also hit two birds (tax savings and hedge against inflation) with one stone.

TFSA refresher

The primary goal of a TFSA user is to set aside money in eligible investments. Dividend stocks are ideal choices because they deliver higher returns. Your savings will grow tax-free throughout your lifetime. Similarly, you can withdraw the funds at any time without the hassle of taxation.

However, you can't use your TFSA to trade stocks to capture price spikes and make profits frequently. The Canada Revenue Agency (CRA) will treat the income from this prohibited practice as business income and, therefore, taxable. You also need to monitor the available contribution room so as not to pay a 1% tax monthly due to over-contribution.

The federal government of Canada introduced the TFSA in 2009. Your TFSA is one of a kind because it's an all-purpose savings account. Users have the flexibility to save for a rainy day or retirement.

You can achieve your long-term financial goals because the balance compounds and builds up over time. Retirees make full use of the TFSA to minimize the impact of the 15% clawback in the Old Age Security (OAS) pension.

Best fit for the TFSA

A Dividend Aristocrat like **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) or Scotiabank best fits the

TFSA. Aside from its dividend track record of 188 years (since 1832), the historical return of this bank stock over the last 20 years is 560.24%.

Given the perpetually low payout ratio, the dividends are safe. Scotiabank maintains the ratio at a healthy range of 50% to 60%. This $69.13 billion bank retains earnings to fuel growth while sharing some to shareholders.

If you take a position now, you can purchase the stock at a 21% discount. At $57 per share and a dividend yield of 6.38%, your $10,000 will produce $638 in annual income. As Scotiabank pays dividends quarterly, you have $159.50 in tax-free money every three months. Assuming you hold the stock for 20 years, the value will increase three-fold to $34,450.83.

There never was a time in the era of dividend payments that the big Canadian banks cut their dividends. Throughout the distant and recent recessions, Scotiabank has been consistently paying dividends. The bank has a sizable credit loan provision in case the portfolio turns sour.

Scotiabank is the industry leader in financial crime risk management and a prominent mover of Environmental, Social and Governance (ESG) related investments.

Perfect tandem

The TFSA and Scotiabank are the perfect tandem. You can create or build wealth. Furthermore, you won’t need to beg for temporary government aid when there is a financial crisis. Your fallback or safety net is permanent. It could last a lifetime.

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cliew