TFSA: How Retirees Can Earn an Extra $520/Month in Tax-Income Income With $69,500

Description

Retirees, your Tax-Free Savings Account (TFSA) is an invaluable tool that's not just for growing wealth through the power of long-term tax-free compounding. It can also be used to generate a passive — and tax-free — income stream.

With the CERB, you'll need to set aside a portion to account for taxes, but with income generated from your TFSA, what you see is what you'll get, with no strings attached, assuming you don't break any TFSA rules!

Putting your TFSA to work as a tax-free income stream

If you're a retiree who's been contributing the maximum amount every single year while using the proceeds to sit around in cash or cash equivalents, you'll have close to $69,500, the cumulative TFSA room assuming zero growth on your contributed wealth since the account's inception over a decade ago.

To generate $520 per month, you'll need a 9% yield on the $69,500 in principal.

While most financial advisors would agree that 9% is stretching one's yield too far, I'd argue that given the environment in which we find ourselves, it's not reckless if you're willing to put in the due diligence to ensure you won't be on the receiving end of a dividend (or distribution) cut.

There are many wonderful cash-flow-generative firms out there with decent enough balance sheets and cash flow streams that are more resilient than you'd think in the face of the COVID-19 pandemic. Despite demonstrating resilience, plenty of firms have still yet to meaningfully recover from the February-March sell-off, mostly because of the nature of their industries.

If you've got what it takes to go against the grain, with some of the battered REITs out there, then yes, it *is* possible to stretch your yield to 9% without getting hurt. Of course, a higher yield comes with more risks, so make sure you understand the risk/reward and put in the required homework.

A smart REIT to boost your TFSA income

One REIT with a 9% yield that I believe is severely oversold is **SmartCentres REIT** (TSX:SRU.UN). It's just one of many hard-hit retail REITs that are directly within the crosshairs of the COVID-19 crisis. The "death of the shopping mall" thesis was widely subscribed for years now.

The pandemic has only served to worsen the worries of investors in retail REITs and reinforce the pessimistic narrative of the bears.

SmartCentres REIT kept its distribution intact despite the pressures brought on by the COVID-19 crisis. A significant reason why Smart is holding its own better than many of its peers is because of its wonderful tenant base, which is composed in large part (around 60%) by providers of "essential goods and services."

Such essential retailers kept their doors open amid the pandemic and will likely do so if we're in for another round of COVID-19 shutdowns.

Wal-Mart, which thrived amid the pandemic, is a main anchor at nearly two-thirds of SmartCentre locations. The resilient brick-and-mortar retailer continues to keep SmartCentres and well as nearby tenants afloat during this crisis.

Foolish takeaway

SmartCentres is just one of many smart high-yielders to consider as a part of a diversified TFSA income portfolio.

Fellow Fool contributor Kay Ng believes that SmartCentres REIT could be in for 50% worth of gains once the economy normalizes. Given SmartCentre's demonstrated resilience, the high cash distribution will survive the crisis and that contrarians have a lot to gain from the battered REIT as we inch closer to normalcy.

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Sharewise
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