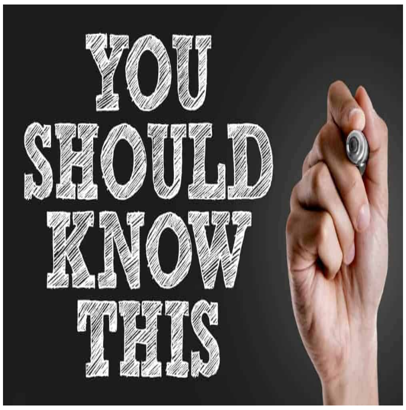

TFSA: How to Earn $920/Month From $100,000 and Owe ZERO to the CRA

Description

The Canada Revenue Agency (CRA) is always hungry for their slice of your monthly income. Passive income or not, the taxman wants to get paid, but through the power of the TFSA (Tax-Free Savings Account), you can keep your dividends, distributions, and interest, without having to set aside a sum for the CRA to collect.

If you're fortunate enough to have been able to contribute every year to your TFSA while using the proceeds to invest in the stock market, you may find yourself at or near the $100,000 mark. A $100,000 TFSA can allow you to earn an extra $920 per month from high-yield securities such as **Inovalis REIT** (TSX:INO.UN), which currently sports a bountiful 11.1% yield. And no, that yield isn't a typo!

While you'd be advised to steer clear of such super-high-yielding securities, especially if they're the result of substantial depreciation in the underlying firm's share price, this pandemic-plagued environment offers unprecedented opportunities to those who are willing to put their contrarian hats on.

Inovalis's distribution payout is indeed profound, but when you consider the REIT has a large yield by design, even under normalized non-pandemic conditions, it becomes more apparent that the REIT's yield is far safer than most would expect it to be based on its overwhelming size.

Value and swollen yields in the office REITs?

The COVID-19 pandemic has undoubtedly weighed on office REITs like Inovalis. Workforces are operating primarily from home, a trend that will continue for the duration of this horrific pandemic. Once the pandemic ends, some believe that the work-from-anywhere (either from home or the office) will become the new normal. Such a trend would not bode well for office REITs, as the demand for office space is likely to remain weak for the long run.

Inovalis is a European-focused REIT with properties in hot spots within France and Germany. The work culture differs greatly from the one in Canada or the United States. Once the pandemic is over and it's safe to return to the office, we'll witness a slow and steady reversion in mean demand for office real estate. People will likely be headed back to the office, although some tech firms who are all about digitization will buck the trend by working at home for longer.

In Europe, the reversion to the mean will be quicker, which makes Inovalis a more compelling option than most other battered office-centric REITs out there. In the meantime, Inovalis and other office REITs are going to feel the pressure, as rent collection will likely be on the retreat in a worsening of the second wave.

Foolish takeaway for TFSA income hunters

Inovalis's distribution has become stretched, but it has the safest double-digit yield you're likely to find on the **TSX Index**. Funds from operations (FFO) certainly aren't the strongest in the world, and Inovalis is not immune from a distribution reduction.

That said, I am a fan of the longer-term risk/reward and think income investors willing to invest for the post-pandemic world have much to gain at this juncture, even if the distribution takes a 20-30% hit in a worsening of the second wave.

Of course, it'd be unwise to invest the entirety of your $100,000 TFSA in a single security, even one as intriguing as Inovalis REIT. When such a name is incorporated alongside a diversified portfolio of high-yielding names like those offered within covered call ETFs, however, it is possible to stretch your yield that much farther as you look for value amid this crisis.

Understand the risks of reaching for deep value firms with stretched yields and make sure you don't need the income to meet the daily costs of living.

If you're a risk-averse retiree, I'd urge you to only consider nibbling on shares of Inovalis, rather than backing up the truck all in one go, as the risks are still elevated in the era of COVID-19.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:INO.UN (Inovalis Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

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Date
2025/08/25
Date Created
2020/10/01
Author
joefrenette