This 1 Stock Will Earn TFSA Income That the CRA Can't Tax!

Description

The Canada Revenue Agency (CRA) rose to the occasion in 2020 when COVID-19 was officially declared a global pandemic by the World Health Organization in March. Its first order of the day was to extend the tax-filing and tax-payment deadlines. Taxpayers welcomed the twin moves.

After that, the CRA came out with a slew of cash benefits, breaks, and credits to lighten Canadians' tax burden. However, the leniency and generosity don't mean the tax agency will abandon its primary responsibility. The CRA will still collect taxes or mete out penalty tax where it should.

Class act

If you have a Tax-Free Savings Account (TFSA), you can invest in it with a dividend stock like **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), or Scotiabank. All interest, gains, or profits in a TFSA are tax-free. The CRA will not dip into the account to tax your income.

The only time the CRA can mete out a penalty tax is when you commit the mistake of overcontributing. Always be aware of the annual contribution limit and track your available contribution room. The CRA will charge a 1% penalty of the excess amount every month. Withdraw it to avoid the unnecessary tax.

Likewise, frequent trading is prohibited. If the CRA determines that you're using the TFSA to generate profits by buying and selling stocks, all earnings will convert to business income. The CRA will treat it as taxable income.

The best part about the TFSA is that you can withdraw anytime. Also, all withdrawals are tax-free. Many Canadians use the TFSA to save for retirement or build a nest egg. Keep reinvesting the dividends from Scotiabank to realize the power of compounding.

Why Scotiabank?

Scotiabank is the third-largest bank in Canada and a leading international institution. This $68.33 billion company offers a broad range of products and services to clients. The reach of the 188-year-old bank extends beyond the home country.

The key markets composed of Canada, the U.S., and the Pacific Alliance nations combine to contribute more than 80% of total earnings. Scotiabank's diversified business and geographical operations are positives, because they reduce overall risk and volatility.

Dividend investors and retirees are at ease if Scotiabank is the core holding in a TFSA. Since it was established in 1832, the bank has been paying dividends, making it one of the dependable income providers. In terms of dividend growth, the rate of 6.5% CAGR over the past five years is quite impressive.

In the pandemic, Scotiabank is active in providing liquidity to small businesses, the largest sector for employment in Canada. The bank is now open to receive applications for the next phase of the Canada Emergency Business Account (CEBA).

For the prospective investor, Scotiabank pays a hefty 6.35% dividend. Assuming you can purchase $50,000 worth of shares, the $3,175 earnings are tax-free. In 20 years, your investment will compound to nearly $172,000. At the current share price of $55.81, you get value for money.

Tax-free all the way

The TFSA and Scotiabank complement each other. You have a unique investment vehicle and a consistent dividend payer. Users need to manage the account correctly to be free of the CRA all the way.

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