The Canada Revenue Agency Can't Tax Your TFSA Income, So Buy This Dividend King Now

Description

If you make a considerable amount of passive income from your investments, the Canada Revenue Agency (CRA) wants a slice. If you construct your income stream from a TFSA (Tax-Free Savings Account) instead of a non-registered account, though, the CRA won't be able to tax you a dime. But that's assuming you play by all the rules of the TFSA's use!

That means no business trading activities (what's considered "business trading" is at the discretion of the CRA) and no overcontributions (the CRA doesn't care if you unknowingly overcontributed, you'll likely be slapped with a penalty proportion to your overcontribution amount). The rules of TFSA use are pretty simple, but you'd be surprised how many folks are unaware of the rules and are at risk of skating offside.

Your TFSA can save you CRA taxes on your investments

TFSA rules aside, the TFSA is there for you to contribute to and invest. Although it's a "savings account," the account is better used to hold for your greatest investments. That way, you'll be able to shield your capital gains and investment income from the Canada Revenue Agency legally, instead of just shielding your nearly negligible interest amounts on cash hoarded in those "high-interest" TFSA savings accounts.

For young TFSA investors, I've often encouraged investing in growth stocks that had the potential to appreciate at an above-average rate over the course of decades. With the coronavirus crisis and the income hit that many have taken, there's no shame in turning one's growth-focused TFSA portfolio into an income-oriented one.

You can rotate your funds from growth stocks into income stocks without getting dinged by the Canada Revenue Agency. And once you've regained your employment, you can easily rotate your income securities back into growth ones, just like shifting gears on a motor vehicle.

A dividend king that’s perfect for TFSA investors who hate CRA taxes

If you seek the perfect balance of income and growth, there are dividend-growth stocks like **Fortis** (TSX:FTS)(NYSE:FTS) that can help you get more income without compromising on the growth front entirely.

Fortis may have a reputation as a boring Boomer investment, but it’s so much more. I believe the bond-proxy-like name deserves a spot in every Canadian investors’ TFSA. It serves as a rock-solid foundation, which can help keep a portfolio grounded whenever a typhoon like the coronavirus crisis hits from out of nowhere.

The firm has a highly regulated operating cash flow stream, which makes Fortis stock less likely to follow in the footsteps of the broader market. While there’s still some correlation between FTS stock and the broader **TSX Index**, it’s quite minimal. As a top defensive, the stock is more likely to hold its own in market crashes, but unlike most defence plays, Fortis is able to reward investors with a decent amount of growth (for a utility) over the long run.

Foolish takeaway

As you’re probably aware, there are no guarantees in the world of “risky” equities. Fortis’s dividend is the closest thing to a guarantee you’ll come across in the stock market. The 3.7%-yielding dividend is safe from taxes from the Canada Revenue Agency if you hold it in your TFSA, as too will be the long-term gains you’re likely to enjoy over the decades.

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