Canada Revenue Agency: Earn $1,000/Month in TFSA Income and Protect it From CRA's Claws

Description

September was a nightmare for many Canadians as they paid their 2019 tax bill while many were jobless. The stock market saw a correction at that time as people encashed their investments to pay taxes. Taxes become a taxing job as the Canada Revenue Agency (CRA) takes a big bite from your income. You can save your working income from CRA's claws by leveraging the many tax breaks the agency offers. And you can save your investment income from CRA's claws by using a Tax-Free Savings Account (TFSA).

How to protect your TFSA income from CRA

The CRA started TFSA in 2009. TFSA allowed Canadians to save on an average of $5,000 every year in the securities of their choice. The best encouragement is no tax, and the CRA used that. You invest $5,000 of your taxed income, and the CRA will never look at that money again. Your investments will grow tax-free and the CRA won't lay its claws on withdrawals.

You can use this tax treatment of TFSA to your benefit and earn as much as $2,000/month in tax-free income. Moreover, you will have more than $100,000 in your TFSA. Here's the math.

Earn $1,000/month in TFSA income

If you started saving $100 a week, or $5,000 a year, in TFSA in 2009, your contribution would be $65,000 by now. If your investment earned you an average annual return of 10%, you would have $133,000 in your TFSA. There were plenty of stocks like **OpenText**, **Descartes Systems**, and **Cargojet** that surged at a CAGR of 10%, 24.8%, 23.5%, respectively, during this period. If you diversified your money among the three stocks, your average return will be more than 15%.

The pandemic has created an opportunity to lock in a high dividend yield for a lifetime. Good dividend stocks are trading at a discount of more than 30% because of the short-term headwinds. But their dividend per share is intact, thereby increasing their dividend yield above 8%.

The trick is to identify the dividend stocks that can withstand the pandemic crisis without cutting their dividends. Two such stocks are **Enbridge** (TSX:ENB)(NYSE:ENB) and **RioCan REIT** (TSX:REI-UN). Their customers and peers have slashed their dividends by 50%, but they won't.

Enbridge

Enbridge has all the traits of a good dividend stock; market leadership, stable cash flows, and a 25-year history of paying incremental dividends. It gets its traits from its robust "toll-based" business model. The company makes a one-time investment in building pipelines and earns revenue by transmitting oil and natural gas through its pipelines.

As Enbridge has the largest pipeline infrastructure in North America, it commands the pricing power of the toll it can charge. All its revenue comes from long-term contracts, which secures its cash payments. Enbridge increases its dividends by building new pipelines and investing in other energy projects that generate desired returns. It has increased its dividend at a compound annual growth rate (CAGR(of 8.8% in the last five years and will continue to grow it in the coming five to 10 years and more.

RioCan REIT

Even RioCan REIT has all the traits of a good dividend stock except one, and that is incremental dividends. It continued to pay regular dividends for 20 years without any significant dividend cuts. It is Canada's second-largest retail REIT and earns regular rental income from retail tenants. This rent is what investors receive in the form of dividends.

It protects its cash flows by taking security deposits, diversifying its tenant base, and diversifying its portfolio to include residential and commercial property. It develops properties in prime locations that fetch higher rent and makes it easy to increase occupancy. The stock fell 45% to $15 in the 2009 crisis but surged 107% in two years. The 2020 crisis is similar.

TFSA income

If you equally divide $130,000 between Enbridge and RioCan, you will earn $920/month from December. If Enbridge continues to increase its dividend per share at a CAGR of 8%, your TFSA income will reach $1,000/month by 2023.

Moreover, as the economy recovers, shares of Enbridge and RioCan will recover over the next three years. The increase in their stock price to the pre-pandemic level could increase your $130,000 principal to $195,000.

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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pujatayal