
TFSA Pension: Get $5,000 a Year and Pay No Tax to the CRA

### Description

Is it possible to get an “extra” $5,000 a year in income and pay no tax to the CRA?

Normally, the answer is no. All employment income is taxed, and the same goes for investments. While $5,000 in dividend income won’t generate massive taxes if it’s your only income, it could be taxed heavily when added to your salary.



However, there is *one* way to get up to $5,000 in investment income without paying tax to the CRA. If you have a lot of unused TFSA contribution room, you can build a high-yield investment portfolio and hold all of it in a tax-free environment. If your portfolio has a really high yield, then you may be able to get $5,000 a year, even with the TFSA’s relatively small contribution limit. Here’s how.

## Yield needed to get $5,000 in a TFSA

There are two ways to get tax-free income in a TFSA:

- Capital gains
- Dividends/interest

Cashing out capital gains is not always a good idea. If you cash out while stocks are down, then you may run capital losses. So, for the purpose of this article, we’ll focus on dividend income.

It might look hard to get to $5,000 in annual income in a TFSA. The total contribution room for 2020 maxes out at $69,500, and you need a 7.2% yield to get $5,000 in dividends on that size of a portfolio. There are only a handful of investments out there that produce that kind of yield. However, they do exist.

## These investments could get you there

There are several Canadian investments with yields north of 7%. Several REITs have yields in that range, as do some beaten-down energy stocks.

One ultra-high-yield energy stock you can buy today is **Enbridge** (TSX:ENB)(NYSE:ENB). At today's prices, ENB yields 8.5%. That means you get $5,907 in dividends back for every $69,500 invested. This stock alone could take you well past $5,000 in tax-free dividend income. However, it's subject to several risk factors. As an energy stock that transports oil to the U.S., it's subject t0 regulatory risk. As an oil and gas company, it's vulnerable to competition from alternative energy. Finally, it has suffered a revenue hit because of the effects of COVID-19. These are all real risks you need to be aware of. They're serious enough that you shouldn't put *all* of your TFSA money in ENB stock.

As an alternative to betting all your money on one horse, you could consider an ETF like **BMO Covered Call Utilities ETF** (TSX:ZWU). It's a unique ETF that advertises an 8.5% yield, largely due to its yield-enhancement strategy. The ETF writes covered calls on its holdings, which lets it collect option premiums that boost the yield. Note, though, that the fund has a fairly high 0.65% fee. You can expect about a 7.75% yield after fees are taken out — more than enough to get you to $5,000 a year on a $69,500 position.

**CATEGORY**

1. Dividend Stocks
2. Investing



**TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:ZWU (Bmo Covered Call Utilities ETF)

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