Canada Revenue Agency: Earn $500 a Month of Tax-Free Income

Description

Taxes are necessary to the function of society, but at the same time, they are something nobody wants to pay. That's why the Canada Revenue Agency is such an important organization. It's crucial that we collect the taxes owed to the government to pay for essential services.

With that being said, as individuals, there's nothing wrong with doing all you legally can to avoid paying as much taxes as possible.

That's why the Tax-Free Savings Account (TFSA) is such an incredible that tool investors have at their disposal.

Canada Revenue Agency: You can earn investment income in a TFSA

For the most part, almost all income in a TFSA is tax free. There are, of course, contribution limits. There are also rules around abusing the tax-advantaged account that the Canada Revenue Agency will come after you for.

In addition, there are also different rules surrounding U.S investments in a TFSA. For the most part, though, these accounts are ideal for Canadians.

It's crucial you use your TFSA to earn investment income, though, rather than simply using it as a savings account. Often, Canadians will open a TFSA and use it to save cash and nothing more. This is a major mistake that should be avoided at all costs.

Having an account that is sheltered from the Canada Revenue Agency and allows you to earn tax-free income is something that shouldn't be taken for granted. You can build yourself a major passive-income stream that consistently grows and never have to worry about paying any tax.

The TFSA is not just a perfect long-term investment account, but it gives Canadians financial flexibility.

That's because you can withdraw your money at any time with no penalties or restrictions. All you have to do is wait until the next calendar year to replace the contribution.

A top TSX stock for passive income

The current TFSA contribution limit for anyone that's been eligible since it was introduced in 2009 is $69,500. That's set to increase to roughly $75,000 for 2021.

That means if investors who max out their TFSA earn a yield on their portfolio of just 8%, you will make $500 a month of income that the Canada Revenue Agency can't touch.

If you're looking for a high-yield stock to buy today, I would recommend you consider a top stock like **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). It's dividend is currently more than 8.1%.

Pembina is in the energy industry, one of the hardest hit by the pandemic. Like many of its peers, it's faced considerable headwinds throughout the year. Despite that, its operations have proven to be extremely resilient.

The stock's adjusted earnings per share were down 17% year over year in its most recent quarter. However, that alone doesn't show how resilient Pembina's operations have been.

On the cash flow front, things are much more attractive. In the third quarter, free cash flow came in just 1% below the same quarter last year.

Most importantly, though, its dividend looks to be extremely safe. In 2019, its payout ratio of adjusted funds from operations was only 54%. Even with the impact from the pandemic, that payout ratio is not expected to exceed 65% this year. That's a massive margin of safety in the dividend, which should give investors a lot of confidence.

Bottom line

Pembina stock will almost surely continue to underperform in the short term, while investors worry about the demand for oil. However, for long-term investors willing to wait it out, trading more than 40% off its 52-week high, Pembina is one of the most attractive stocks on the **TSX** today.

The capital gains potential it offers in addition to the massive dividend yield is exactly the kind of income you want to earn in your TFSA. That way, the Canada Revenue Agency can't touch any of it.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
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