CRA: Thousands in Tax-Free Income Remains Unclaimed!

Description

The Canada Revenue Agency (CRA) introduced the Tax-Free Savings Account (TFSA) back in 2009. Since then, each year Canadians are given thousands in annual contribution room to add to their TFSA. However, the CRA wants to wag a finger at most Canadians, as many still have thousands of dollars of contribution room unclaimed.

It's a huge deal. Every penny you invest in a TFSA is potential tax-free income you can take out later on. Then, the CRA can't ask for a penny in taxes. Yet more than half of Canadians don't use their full TFSA contribution room, and there are those who still don't even have a TFSA!

Why get one

Let's say you're one of those Canadians who don't have a TFSA. The reason you should get one is clear and stated right in the name: tax free! It doesn't matter what you invest in, everything can be making you income. Even better, if you're investing in dividend stocks, you not only receive returns but also dividend payments each and every quarter, sometimes every month!

Yet the CRA states that as of 2017, there was about $30,000 in unused contribution room by each Canadian who had a TFSA.

The solution? Go get one right now! Seriously. I'll wait.

What to invest in

As I mentioned, dividend stocks are a great way to start up your TFSA if you're unsure of what to invest in. In fact, most blue-chip companies offer dividends. Blue-chip companies are those that are household names within the industry. The company usually has decades of historical data, if not more, and a strong future outlook that means dividends will continue for years to come, even decades.

That's why Canada's Big Six Banks are a great place to start for TFSA investors. These banks have been around for around a hundred years or more in some cases. The banks prepare for economic downturns, and come out the other end with only bumps and bruises. During the 2008 Great Recession, the Big Six Banks were at pre-crash levels within a year.

During a pandemic, this is exactly what you want. Predictable stocks, with predictable returns, and predictable dividend payouts. But which is the best?

Go big

The largest Canadian bank by market capitalization at the moment is **Royal Bank of Canada** (TSX:RY)(NYSE:RY). While no one could have predicted the pandemic, Royal Bank still prepared for a predicted economic downturn, which means it hasn't been hurt too badly even during this crisis.

In fact, while revenue is down year over year by 1.3%, net income is actually up by 26.5! With earnings coming up this week, it could be a great time to buy after a solid summer of businesses getting back to work.

The CRA stated many Canadians actually got their finances in order during the pandemic, so this could mean many paid of loans, which could see a huge increase in revenue for Royal Bank.

Meanwhile, this company is a perfect buy and hold stock. It has seen returns of 74% in the last five years, with a compound annual growth rate (CAGR) of 11.47% in the last decade. And right now, it pays a strong 4.09% dividend yield. So you can still receive solid passive income even as you wait for an economic upturn.

Bottom line

Let's say you were to invest just half of your TFSA contribution room in Royal Bank. That would bring in annual passive income of $1,396, or $349 each quarter. Now let's say you reinvested those dividends into Royal Bank, increasing your shares without paying out of pocket and left it alone for another decade. Without adding a penny, suddenly you have a portfolio worth $143,640.75 from your $34,750 investment!

CATEGORY

1. Bank Stocks
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