How to Make Big Passive Income and Owe Zero to the Canada Revenue Agency

Description

If you're making passive income from your investments, the Canada Revenue Agency wants a slice if you're not sheltering it in a vehicle such as the (Tax-Free Savings Account (TFSA). The power of the TFSA is as profound as it is unfathomable. It can be used to grow your wealth over the long run or help you keep more of your money if you need to give yourself a raise over the short-term.

Distributions, dividends, and interest generated within a TFSA are generally from taxation from the Canada Revenue Agency, but only if you're playing by the rules and not using your TFSA for business trading purposes or any other activities that could nullify the tax-free advantage of the account that was meant to help give all Canadians get ahead.

With another $6,000 worth of TFSA contribution room to be expected next month, you should seek to invest any outstanding cash amounts of your TFSA in quality dividend-paying securities, many of which are still trading at attractive valuations.

With the recent rotation out of various defensives, consider initiating a position in an under-the-radar name like **North West Company** (TSX:NWC), which sports a 4.3%-yielding dividend at the time of writing. The lesser-known Canadian grocery and discount retail firm recently suffered a correction but is in the process of bouncing back following Wednesday's 3% bounce on a day that the broader markets were down, with tech leading the downward charge.

Looking for cheap tax-free income? Head North West with your TFSA!

For those unfamiliar with North West, it's an essential retailer that serves underserved communities, primarily in North Western North America, hence the company's name. For most big-league grocers, it makes less sense to expand into North West's turf, given the return on investment is considerably low. Margins in the grocery scene are already razor-thin. And expanding into remote locations isn't exactly the formula for bolstering a firm's return on invested capital (ROIC).

On Wednesday, the company climbed out of correction territory following the release of some pretty solid third-quarter results that saw profits and sales surge despite the recent divestment of a number of Giant Tiger locations. Management cited "market share gains and COVID-19-related factors" as reasons for the beat that offset lost sales from sold Giant Tiger locations.

North West is gaining share in the communities it serves, which is a huge reason why the stock is a must-buy, even with a potential end to this pandemic come the new year. The firm wrapped things up by declaring a $0.36 quarterly dividend.

Even after the magnificent quarter, North West stock is absurdly undervalued, partially because investors have been rotating away from COVID-19-resilient stocks and back into the COVID-19 recovery plays to maximize their upside in the new year, but also because the name is largely under the radar of most. Shares are the epitome of deep value, with the stock trading at just 0.7 times sales and 14.4 times training earnings.

Foolish takeaway

North West's dividend is well-covered and is in a position to grow in conjunction with sales. If you've got excess cash in your TFSA, I'd look to stash North West in it today if you don't want to have to hand over a portion to the Canada Revenue Agency.

CATEGORY

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1. TSX:NWC (The North West Company Inc.)

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