Canada Revenue Agency: How to Turn $10,000 Into $300,000 and Pay No Tax

Description

Canadian investors want to build their retirement fund without giving the Canada Revenue Agency a big chunk of the gains on investments.

Is a house or condo a good tax-free investment?

Older investors had an opportunity to buy their homes at reasonable prices. As a result, many are sitting on large tax-free gains. As long as the home is your principal residence and isn't used to generated rental income, all profits are yours to keep when the house is sold. The CRA does not apply capital gains taxes.

People cash in when they decide to downsize, move to a cheaper community, or rent after selling the property.

Younger investors, however, face very expensive real estate markets today and might not see the same kind of gains in property prices. In fact, there is a risk condo and home prices could be lower a decade from now.

A recent article about the Toronto condo market shows the current risk of ownership. One research firm calculated that renters come out ahead of owners today by about $200 per month on a $600,000 property purchased with a 20% down payment.

This estimation is generalized, but it shows younger investors that they might be better off to rent and then use the extra cash to build investment portfolios for retirement.

TFSA alternative

The TFSA provides a great way to achieve the goal.

All interest, dividends, and capital gains earned on investments inside the TFSA remain beyond the grasp of the CRA. The TFSA also provides significant flexibility. In the event you need to access funds for an emergency or the housing market crashes and you decide to buy, TFSA money can be removed without any penalties.

The value of the cash withdrawn gets added back to the TFSA contribution room in the next calendar year, so there is space to replace the funds when cash flow recovers.

Best TFSA stock picks

Buy-and-hold investors tend to seek out top dividend stocks. The best companies demonstrate long track records of dividend growth supported by rising revenue. Look for industry leaders that enjoy a wide moat.

BCE and **Canadian National Railway**, for example, might be interesting picks to get the TFSA retirement fund started.

BCE

BCE is Canada’s largest communications firm. The company’s world-class wireless and wireline networks deliver mobile, internet, and TV services to subscribers across the country.

BCE also owns a media division that includes investment in pro sports teams, a television network, and radio stations. Retail outlets that sell mobile phones and electronic gear round out the business. The pandemic hit the media operations quite hard, but the situations should start to normalize by the end of next year.

In the meantime, investors have a chance to pick up BCE at a decent price and collect an attractive 5.7% dividend yield.

CN

CN is a leader in the Canadian and U.S. rail industry. The company is the only competitor that owns tracks connecting three coasts.

CN generates revenue in both Canada and the United States. The balanced nature of its operations provides cash flow stability. When one sector has a rough quarter, the others normally pick up the slack. CN transports cars, coal, grain, lumber, crude oil, fertilizer, and finished goods.

The business is very profitable and generates fantastic free cash flow to support steady dividend growth. While the dividend yield is just 1.6%, the dividend-growth rate is one of the best in the **TSX Index**.

A $10,000 investment in CN just 22 years ago would be worth $300,000 today with the dividends reinvested.

The bottom line

The CRA doesn't give investors many options to generate tax-free profits on investments. With the housing market being so expensive, young investors might want to use the TFSA as an alternative to build tax-free wealth.

The TSX Index is home to many top stocks that still appear oversold and should be solid picks for a TFSA retirement fund.

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