Earn Income on Your $6,000 TFSA That’s Untouchable by the CRA

Description

November 2020 was a month that provided at least some good news in a year that has been full of bad news. Positive news on the vaccine front came along with the confirmation that the Canada Revenue Agency (CRA) is increasing the 2021 Tax-Free Savings Account (TFSA) contribution limit.

The CRA has increased the TFSA contribution limit each year since the account was introduced. The TFSA limit for 2021 is $6,000. The increase is the same as the last two updates. The TFSA limit is indexed to inflation. The expected inflation next year is 1%, and since the limit is rounded to the closest $500, the CRA increased the TFSA limit by the same amount.

The new TFSA limit

Introduced in 2009, the TFSA has been a blessing for Canadians. The government created this account type to encourage better savings rates for Canadians. Annual limits have increased consistently over the last decade, but the benefits remain the same.

Any Canadian over 18 in the last decade can contribute post-taxed income to their TFSA. Once in the account, the investment can grow tax-free. Additionally, you can make withdrawals at any time without incurring penalties or taxes. Any amount you withdraw in a year, you can regain that contribution room in the following year.

With the 2021 update, the cumulative contribution room in the TFSA since the account’s inception stands at $75,500.

Investing in stocks for TFSA income

One of the best ways to use the tax-advantaged account is to earn passive income. Remember thatthe contribution room increased by $6,000. It does not mean you can only invest the cash amount. Youcan use the contribution room to invest in an income-generating asset of the same value and store it inyour TFSA.

Allocating the contribution room to income-generating assets allows you to generate far more income in the account than the same currency value. When you hold cash, your passive income is only through the interest returns. However, holding an income-generating asset like a reliable dividend stock can help you achieve greater returns.

A dividend-growth stock can provide you consistently increasing income through dividends. Additionally, your investment can increase in value due to the asset's capital gains. Between the dividend income and capital gains, the right dividend income portfolio in your TFSA can help you become a wealthy investor by the time you retire.

Defensive growth stock for TFSA

Hydro One (TSX:H) is arguably one of the ideal stocks you can consider adding to your portfolio for this purpose. It is a power transmission and distribution company in Canada with over 123,000 circuit kilometres of distribution lines and 30,000 circuit kilometres of high-voltage transmission lines. The company provides a vital service to more than 1.4 million customers across rural areas.

Hydro One can generate virtually guaranteed and predictable income with almost its entire income generated through rate-regulated assets. The company's business model also allows Hydro One to keep increasing its revenue regardless of the country's economic conditions. With plans to increase its rate base to $26 billion in the next four years, the company can boost its earnings and cash flows.

With better cash flows and revenue, Hydro One can comfortably finance its growing dividend payouts to shareholders.

Foolish takeaway

Supported by stable and predictable cash flows, Hydro One has increased its dividends at an annualized 4.8% rate since 2016. Hydro One is trading for $28.80 per share with a juicy 3.52% dividend yield at writing. I believe that it could be an excellent stock to consider adding to your TFSA for reliable and increasing dividend income for decades that the CRA cannot touch.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Business Insider
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