CRA: How to Pay Absolutely Zero in Taxes

Description

The Canada Revenue Agency (CRA) delayed tax filing and submission for 2020, but the odds of it happening again next year are relatively low. So in about three to four months, most people will be putting their heads together with their accountants and all their numbers together for their tax filing.

Taxes are an unavoidable financial obligation. Although you might be able to reduce it and minimize the amount you need to pay, achieving absolute zero is nearly impossible. The important word here is "nearly."

The power of the TFSA

The TFSA has been around for 11 years now, and it's one of the most powerful investment tools available to Canadians. Whatever comes out of the TFSA is completely tax-free. Whether you are using it as a well of passive income from which you earn tax-free dividends, or you stashed growth stocks in the account and are selling them for a large expense like a vacation, new car, or a down payment on a property, it's tax-free.

If you have been filling your TFSA to the brim every year, it would be worth $75,500 next year, assuming it's all cash (which it shouldn't be) — a sizeable enough amount. Suppose you put it all in a few dividend stocks, which on an aggregate yield of 5%, you can have a dividend-based monthly income of $314.

However, a better idea is to strike a balance between dividends and growth, and two investments that can help you with that are **Canoe EIT Income Fund** (TSX:EIT.UN) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

A monstrous yield

Canoe EIT Income Fund is currently offering a monstrous yield of 12% at a safe payout ratio of 81.6% — enough to start a $200 a month income from a $20,000 investment in your TFSA. The fund hasn't missed its dividends for over two decades and has been paying the same monthly amount of $0.1 per share since 2009.

It's one of the largest closed-end funds in the country, and even if you take the 1.1% per annum management fee out of the equation, the payout would still be almost unrivaled. Canadian and U.S. equities make up over 80% of the fund, and the rest is in cash and foreign equities.

A 25-year old Dividend Aristocrat

Canadian National Railway has been increasing its dividends for the last 25 years, but if you consider its yield of 1.6%, especially in comparison to the monstrous Canoe yield, it's not enough reason to buy into this aristocrat. However, CNR offers powerful capital growth potential. The stock price has been steadily growing for the last decade, and the CAGR is 17.3%.

If the company can sustain this growth pace for two more decades, a $20,000 investment in the company can theoretically grow into half a million dollars. The CNR has a powerful network of railroads and is likely to stay profitable until a disruptive new transportation system can dominate the market of transporting heavy cargo for affordable rates.

Foolish takeaway

The TFSA can be a potent tool against taxes. With funds growing in this tax-free account, you can make purchases and major financial decisions that would otherwise increase your tax burden and push you into a higher bracket without paying a dollar in taxes. But in order to maximize the potential of your TFSA funds, you have to invest them in the right assets.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:EIT.UN (Canoe EIT Income Fund)

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