1 Tax-Free Passive Income Source That's Better Than the OAS or CPP Pension

Description

The COVID-19 pandemic is still grinding such that you can expect the recessionary environment to extend in 2021. **Canadian Imperial Bank of Commerce** Managing Director and Deputy Chief Economist Ben Tal describes this recession as the most abnormal in the country's history.

While Canada is recovering from the health crisis, it won't be an easy task. The government's emergency measures in 2020 are helping, although most benefits are temporary and taxable. Fortunately, Canadians have a way to create income apart from federal aid through a Tax-Free Savings Account (TFSA).

The TFSA is a better income source than the Old Age Security (OAS) and Canada Pension Plan (CPP). If you have a TFSA, the passive income you will generate is tax-free. Because the Canada Revenue Agency (CRA) won't touch all earnings inside the account, all the funds are yours; there are no deductions and penalties when you withdraw.

New contribution limit

In January 2021, TFSA users will have an additional contribution room of $6,000, the same limit in 2019 and 2020. You can invest more if you have an unused contribution from this year. There's an opportunity again to make tax-free money and safeguard financial health during the recession.

Others who maxed out their limits and took out funds in 2020 can re-contribute the withdrawn amount. For Canadians who have yet to open a TFSA, now is the time to build an emergency fund or save for a specific goal. You can grow your money faster while deriving tax savings at the same time.

Realize your financial goals sooner

A TFSA is ideal for short-term and long-term investment goals. You can save for significant expenses like a down payment for a home, capital for a small business, and house renovation, to name a few. The investment account is also best when saving for retirement.

The account is also an efficient tax planning tool. If you have investment income in taxable accounts, move the funds into a TFSA to enjoy tax-free money growth. Seniors avoid the 15% OAS clawback by maximizing their TFSA contribution limits every year.

Clean and green investment

The utility sector isn't trailblazing like the technology sector in the stock market, but holding steady and outperforming the broad market (+8.4% versus +2.56% year-to-date). **TransAlta Renewables** (TSX:RNW), in particular, has been resilient all year long.

As of December 21, 2021, the renewable energy stock is up 30% and paying an enticing 4.89% dividend. If you need to rebalance your portfolio and add defensive assets to your TFSA, TransAlta is an excellent choice. The $5.06 billion utility company can endure a recession or market downturns.

TransAlta owns renewable energy assets across different regions and is the largest generator of wind power in Canada. Aside from the wind, the clean energy portfolio includes gas, hydro, and solar projects. The business model is low risk, given the fully contracted renewable power generation facilities assets.

The weighted average contract life (11 years) of the highly-contracted facilities ensures stable cash flows well into the future.

One-and-only

Get smart in 2021 and use the one-and-only tax-free passive income source. Even if you max out your TFSA limit, it won't affect eligibility for income-tested government benefits and tax credits like the OAS or the Goods and Services Tax (GST) credit.

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