1 Passive Income Stream the CRA Can't Tax!

Description

Work, regardless of industry or sector, can wear a person down. If you've been working for years, you dream of breaking free from the mundane someday. Many hard-working individuals build passive income to achieve financial freedom before the standard retirement age of 65.

Canadians are fortunate because not only can they create a passive income stream, but also tax-free earnings. The Tax-Free Savings Account (TFSA) is a unique vehicle where all interest, gain, or dividend earned inside are generally tax-free. If you manage your TFSA correctly, you'll be untouchable by the Canada Revenue Agency (CRA) for life.

Effortless tax-free money growth

The TFSA has been around since 2009. Its crafters want to help Canadians become financially secure in the future and enjoy retirement life to the fullest. You don't need to be obsessed with your TFSA since the approach to grow money the tax-free way is simple, if not effortless.

Maximize your TFSA limit

The CRA set contribution limits yearly, so maximize them if your finances allow. Don't go over the limit to avoid paying a 1% penalty tax on the excess contribution. Cash is fine, but it would be best to put income-producing assets to realize the magic of compounding.

For 2021, the annual contribution limit is $6,000. However, if you're 18 but haven't opened a TFSA since 2009, your available contribution room is $75,500. Don't worry if you fail to max-out the yearly limit. The unused contribution room carries over to the next year to allow you to play catch up.

Hold more income-producing assets

Cash is okay, but it's not advisable to store more of it in your TFSA. It would be best if your contributions are in the form of a variety of income-producing assets. Among the qualified investments in a TFSA are bonds (government and corporate), mutual funds, exchange-traded funds (ETFs), guaranteed income certificates (GICs), and stocks.

The TFSA isn't an ordinary savings account but a tax-sheltered savings vehicle, no less. It's also better than a non-registered account because "all" your earnings are entirely tax-free. Even withdrawals, regardless of amount, are tax-exempt.

Dividend pioneer

Stocks, especially dividend stocks, are the preferred choices of TFSA investors. While stock market risks are ever-present, the potential return is usually higher compared with other financial instruments. Your TFSA balance can double or accumulate faster over time if you keep reinvesting the dividends.

If you're investing for the long haul or building a nest egg, the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is an investor-friendly stock among all. Canada's fourth-largest bank is the pioneer in dividend payments. The track record stretches 192 years. The $57.98 billion bank has been providing passive income streams to investors since 1829.

BMO currently offers a 3.74% dividend and maintains a payout ratio of less than 55%. Thus far, in 2021, investors are up 17.99% year to date. I can't help but marvel at the BMO's resiliency notwithstanding two World Wars, the Great Depression, the 2008 financial crisis, and the 2020 global pandemic.

A financial institution of lesser pedigree wouldn't be standing tall after several economic downturns and cyclical markets. Make BMO your anchor stock in your TFSA portfolio if you plan to create lasting passive income.

Unbeatable features

The features of the TFSA (savings flexibility, tax-sheltered growth, and tax-free withdrawals) are unbeatable. Every forward-looking Canadian must have one in 2021.

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