TFSA Investors: How to Spend Your 2020 CRA Tax Refund

Description

Do you think you might get a tax refund from the Canada Revenue Agency (CRA) for 2020? Then congratulations! You might be walking into the rest of 2021 with some fresh cash warming your pocket.

Rather than running out to buy the latest 70-inch television (or whatever catches your fancy), perhaps consider thinking a little more long term. Imagine that $1,000 (hypothetical tax refund) could actually become $2,000, $10,000, or $20,000 in five, 10, or 20 years. Maybe those extra five or 10 inches on that new TV don't seem that attractive after all.

Your CRA tax refund could become a money tree

Interestingly, I once saw a friend post on social media that every time he gets a cash Christmas/birthday present, he always invests it. In just a matter of years, he had actually compiled a really impressive portfolio. His birthday money ended up fuelling multiples of wealth over time.

The TFSA is the CRA's best gift to Canadians

The point is, whenever you get a cash "surprise" like a CRA tax refund, consider your opportunity costs before going out and spending it. One perfect way to invest that tax refund is in a Tax-Free Savings Account (TFSA).

The TFSA was designed as an account where Canadians can build wealth by investing completely without tax consequence. Really it is a perfect place to put a tax refund. In essence, you are taking overpaid tax and then putting it into an account that will never be taxed! What a great exchange!

The TFSA is such a great mechanism for investing, because it means you get to keep all your investment income and gains. Likewise, there is no reporting to CRA when it comes to tax season. It just helps simplify investing in some ways. Frankly, there is no better opportunity in Canada where investors can compound 100% of their investments.

Do you have a few thousand dollars freed up from your CRA tax refund today? Here is one solid TSX stock that would be a great fit for any Canadian's TFSA portfolio right now.

Brookfield Infrastructure Partners: An ideal TFSA stock

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP) is a great TFSA stock to keep away from the CRA. Since it is a partnership, its tax consequences can be a little complicated. I find it an easy one to hold in my TFSA. This stock has a great combination of capital growth and dividend income.

Had you bought this stock 10 years ago and held it to today, you would have earned a combined total return of 721%. The kicker is that 43% of that return (319%) was actually just from this stock kicking out dividends! If you want cash to constantly re-invest in your TFSA, this is a great stock.

BIP owns and operates infrastructure assets all over the world. These are boring assets like cell towers, toll roads, pipelines, transmission lines, and railroads. Yet, they produce stable consistent cash flows that are largely contracted or regulated. Consequently, the company can afford to consistently reward shareholders with a nice 3.8% dividend.

Yet, inside those assets, BIP has ample opportunities for organic growth. This company knows how to unlock value out of assets. Right now, management expects to keep growing that dividend by 5-9% a year. Add in the potential for some large-scale acquisitions, and this stock could keep producing 12-15% total returns on equity for years to come.

The Foolish takeaway

If you want to be the most tax conscious, forget buying the new TV. You will still have to pay sales tax on that anyways. Rather, invest your CRA tax refund into BIP (inside a TFSA). It might take some time and you will need to be patient. However, I can bet pretty safely that in five, 10, or 20 years, it will certainly be worth many multiples more than that 70-inch TV you originally had your eye on.

Stay Foolish!

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