CRA Tax Efficiency: 1 Top Passive Income Stock for Your TFSA

Description

If you're making big passive income from dividend stocks or high-yield REITs, the Canada Revenue Agency (CRA0 wants a slice of it — that is unless you're putting your Tax-Free Savings Account (TFSA) to good use. Far too many Canadians aren't leveraging the full power of their TFSAs.

Sure, it's labelled as a "savings account," but it's arguably better used as an investment account, whether you need tax-free passive income or are looking to grow your wealth through the years with tax-free capital gains. Regardless, Canadians need to stop using their TFSAs as a vehicle for excess cash to collect dust and start using it to accellerate their long-term investment goals.

Canadians: Your TFSA is for more than just saving!

Assuming you play by the rules (no business trading activities, overcontributions, and all the sort), the TFSA takes CRA taxes out of the equation. For many new investors who've yet to max out their TFSAs, the difference is difficult to fathom.

Only the long haul, after numerous $6,000 annual TFSA top-ups, though, does it become more apparent that the TFSA can make a world of difference. Indeed, it can mean the difference between a comfortable (or early) retirement and a frugal (or late) one. Heck, it could even mean the difference between having a retirement and having to work until your late 60s or even 70s.

Your TFSA can help you achieve greater CRA tax efficiency

Now that you understand the true power of the TFSA and how it can help you achieve better CRA tax efficiency, it's time to look at the options available today. For young people, it's advisable to use your TFSA as a means of growing wealth.

Seeing as we're in tough, pandemic-plagued times, though, I'd imagine that many young Canadiansare struggling to meet the climbing costs of living. As such, there's no shame in using your TFSA as a means of generating passive income, as a retiree would. At least until your active income normalizes.

Remember, you can always rotate back into growth stocks without dividends down the road. Think of it as shifting gears to adapt to the times.

In this piece, we'll have a quick look at two great passive-income stocks that Canadian investors should strongly consider stashing in their TFSAs to legally shield dividend (or distribution) income taxes from the CRA.

A great high-yield pick for income investors

SmartCentres REIT (TSX:SRU.UN) is an ideal passive-income candidate to stash in your TFSA to keep CRA taxes at bay. Shares of the retail REIT has bounced back off their March lows but are still off considerably (around 30%) from their all-time highs. As a result, the yield is swollen at 6.8%, and it's looking that much safer now that post-pandemic normalcy is now in sight.

The top Canadian REIT doesn't just have the great **Walmart** anchoring a majority of its locations, but it also has a compelling long-term growth plan that could call for significant re-valuation to the upside. You see, Smart isn't just a high-quality strip mall REIT; it's a retail REIT that's pushing into mixed-use properties. As the REIT looks to find the perfect blend of residential and retail, I'd look for the quality of FFOs (funds from operations) to improve over time.

For now, Smart has one of the safer near-7% yields in the REIT universe, making it my top TFSA pick for those looking for passive income minus the CRA taxes.

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joefrenette