



## 3 Ways to Earn TFSA Income the CRA Can't Tax

### Description

Canadians make taxing decisions every year, although they can be free of the Canada Revenue Agency (CRA) through one investment account. The Tax-Free Savings Account (TFSA) is by far the most effective vehicle in Canada to create non-taxable income. Cash is good, but why store it when it defeats the purpose of the TFSA?

Your TFSA contributions are not tax deductible, so they can't reduce your taxable income. However, money growth inside the account is tax-free, including the funds you will withdraw in the future. Hence, it works to offset your tax payables or avoid the Old Age Security (OAS) clawback if you're a retiree.

The key to keep the CRA off-limits is to hold income-producing assets in your TFSA. Remember, all interest, gain or dividend earned will not incur taxes whatsoever. As mentioned, your TFSA is [not the best place to store cash](#). You have three options to make the most of the unique account and be tax-exempt for life.

### Bonds

Bonds, whether government or corporate, are qualified investments in a TFSA. The financial instrument is the source of fixed income because it provides periodic payments throughout the term. Risk-averse or conservative investors prefer government bonds since it's a sovereign risk. You can hold them until maturity.

While bonds are less risky than other investments, the rate of return leaves much to be desired. The advantage is that you choose a bond that aligns with your time horizon or investment window.

### GICs

Guaranteed Investment Certificates (GICs) offer a higher guaranteed rate of return than a regular high-interest savings account. The drawback, however, is the inaccessibility when you need cash. You can't touch your money because it's locked in for a set period.

GICs, pay the principal plus interest on the maturity date. The lock-in period or term varies. It could be anywhere from 30 days to as long as 10 years. Usually, investors invest in GICs with terms of one and five years. When it matures, it's guaranteed that you'll receive the entire original investment plus interest earnings.

## Stocks

Most TFSA investors hold stocks because the returns are higher. If you're investing for the long term or building retirement wealth, use your TFSA contributions to purchase dividend stocks. For bond-like characteristics, a top-tier Canadian utility stock is best for TFSA investors.

**Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) pays [rock-steady passive income](#) regardless of the market environment. Dividend investors regard the \$26.13 billion company from St. John's, Canada, as the **TSX's** defensive gem, and for a good reason.

Fortis is an electric and utility company that serves end-users in Canada, the U.S., and Caribbean countries. Performance-wise, the utility stock's total return in the last 20 years is 1,098.02% (13.21% CAGR). The year-to-date gain is 8.10%, although you won't see much wild price fluctuations.

The current share price is \$55.72, while the dividend yield is 3.66%. If you were to invest today, management plans to raise dividends by an average of 6% annually through 2025. Its rate base is growing and cash flows are stable, so the desired dividend growth is achievable.

## Risk appetite

Apart from bonds, GICs, and stocks, mutual funds and exchange-traded funds (ETFs) are also eligible investments in a TFSA. Your risk appetite will dictate your choice.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

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