TFSA Investors: How to Earn $100 a Month Tax-Free

Description

You might have heard that the Tax-Free Savings Account (TFSA) is the perfect place to park your investments to earn interest income. That's because interest income is taxed at your marginal tax rate in taxable accounts.

The problem is that interest rates are super low right now. So, interest-bearing investments aren't going to make you much passive income. The best five-year GIC rate is 2.2%. Quality corporate bonds provide yields of more or less around that rate.

To get more tax-free income in your TFSA, you should consider investing in dividend stocks that provide higher yields immediately. What's more, many of these dividend stocks also *increase their dividends* over time.

So, if you start earning $100 a month in your TFSA this year, it could grow 10% to $110 a month next year and $121 the year after.

Here's a quality dividend growth stock with a high yield that's been growing its dividend at more than 10% a year.

Earn $100/month tax-free from this Canadian dividend stock

Canadian Net REIT (TSXV:NET.UN) just rebranded itself from **Fronsac REIT**, making it more self-explanatory. The Canadian real estate investment trust (REIT) invests in high-quality triple net and management-free commercial real estate properties. And it has outperformed, delivering 22% per year over the last 10 years!

Currently, it yields 3.75%. To earn $100 a month in your TFSA from the stock, you would need to invest $32,000 in its shares. Of course, that's a lot to invest in a lump sum. You should invest an amount that makes sense for you.

Besides, it's a small-cap stock with a low trading volume, so it would be easier to accumulate hundreds of shares at a time instead of thousands. You can also set your order for as long as possible at your desired buy price target to save commission fees.

The TFSA is actually the perfect place to park your money in Canadian Net REIT because the REIT's cash distribution has historically consisted largely of return of capital.

In 2020, 50% of its cash distribution was the return of capital, which is tax-deferred until your adjusted cost basis turns negative or you sell shares. Investors owning NET.UN in their TFSAs won't need to worry about paying taxes at all! The cash distributions and the eventual profit-taking in the stock would all be tax-free.

Passive income growing +10%

On a 10% growth rate, your dividend income will double in about 7.2 years. Canadian Net REIT's five-year dividend growth rate was 10.8%. Its more recent dividend increases have shown signs of acceleration, which could very well continue given the company's recent results.

Last year was a very difficult time for many businesses given the pandemic. However, the top-notch REIT managed to maintain a high occupancy of 99% (down 1% from the previous year), increase funds from operations (FFO) per unit by 18%, and boost its dividend by 15%.

Its 2020 payout ratio was 52%, which is a super defensive ratio for keeping its dividend safe and providing room to grow. It also enjoys a nice capitalization rate of about 6.5%

The Foolish investor takeaway

At $8 per unit at writing, Canadian Net REIT trades at just 16.3 times its 2020 FFO, a cheap valuation versus its double-digit growth rate potential. The underlying business is very defensive with essentially no negative impacts from economic cycles.

Combining a nice yield, an attractive valuation, and a double-digit growth rate, Canadian Net REIT is a great stock for accumulation in the TFSA for growing tax-free income.

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