TFSA Investors: How to Grow Your Tax-Free Income to $8,000/Year

Description

What you earn inside your Tax-Free Savings Account (TFSA) is tax free, as long as you avoid foreign dividends with foreign withholding taxes, which depend on the foreign countries in question. For example, if you receive U.S. dividends in your TFSA, 15% of the dividends will be withheld by the United States. And you can't get those taxes back.

default watermark

If you were eligible and have contributed to your TFSA since its inception in 2009, you could have contributed as much as $75,500, which averages just under $5,808 of contributions per year (or $484 per month).

If your portfolio yield was 3% and it grew by 7% a year, your TFSA would be $152,678 by the end of this year. If you reinvested all received dividends for a 7% return as well, the portfolio would be $223,797.

The TFSA limit for this year is $6,000, which means you need to save and invest $500 a month in your TFSA to take full advantage of the tax-free compounding. Of course, you can contribute a lump sum, but it's easier to save if you do so regularly and consistently.

If it works for you, set up an automatic transfer of $500 monthly from your chequing account to your TFSA to secure that savings.

A yield of 3% on a $152,678 TFSA portfolio would generate $4,580 of tax-free income a year. A $223,797 TFSA would generate income of $6,714!

By continuing to maximize your TFSA every year and aiming for an overall yield of 3% and growth of 7%, it wouldn't take long to achieve $8,000 of tax-free income a year.

Where to get a 3% yield and 7% growth today?

Our writers' top TSX stock picks for September 2021 include potential dividend stocks that more than fit our criteria! Chris MacDonald recommended **Manulife** (TSX:MFC)(NYSE:MFC) as a top value pick.

I’ve got to agree that Manulife provides excellent value.

At $24.56 per share at writing, the large-cap life and health insurance stock provides a yield of almost 4.6%. Additionally, it’s forecasted to grow its earnings per share by 14.8% per year, likely with the help of higher growth in its operations in China.

Even if it were only to grow at half of that rate, it’ll still more than meet our 7% target growth rate. Furthermore, if it proves to achieve this mid-digit growth rate consistently, it should trade at a higher multiple. Valuation expansion should drive even greater growth. Over the next five years, there’s a good chance that Manulife will fulfill our financial goal.

My top pick was **Canadian Net REIT** (TSXV:NET.UN), which yields almost 3.9%. It has increased its dividend at a compound annual growth rate of 14% in the last three years, which is awesome!

The commercial real estate company is based on a very solid business model with a foundation of triple-net and management-free leases. Its top tenants are grocery chains or publicly listed companies. In addition, it experiences extraordinary growth by pursuing assets — in the sweet spot — too large for individual investors but too small for large firms. Therefore, the company was able to maintain 99% occupancy last year during the pandemic with substantial growth across key performance metrics!

Interestingly, the dividend stock is trading at roughly a 19% discount from its multi-year normal valuation since 2014. So, it’s an incredible addition for TFSA investors seeking tax-free income and growth.

default watermark

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSXV:NET.UN (Canadian Net Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/22
Date Created
2021/09/02
Author
kayng

default watermark

default watermark