Canada Revenue Agency: The Best Dividend Stocks for Your TFSA

Description

Keep more money in your pocket from the Canadian Revenue Agency (CRA). Save tremendous income taxes by sheltering your dividends and capital gains in your Tax-Free Savings Account (TFSA).

Here are the best dividend stocks to invest in your TFSA today, offering value, growth, and remarkably safe income.

Scotiabank

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) just finished six years of repositioning efforts, exiting 21 countries and 11 non-core businesses. Scotiabank is amazing in that it still managed to grow earnings per share by 5.6% per year over the period, despite all the divestitures and acquisitions.

By exiting certain markets, Scotiabank has become an even higher quality bank with an improved credit risk profile and reduced operational risk, which means that it will have fewer bad loans and less exposure to political risk.

Scotiabank still has businesses in about 33 countries, which is down substantially from 54 six years ago. However, it now focuses on six core markets, which contribute about 87% of its earnings.

The defined strategy is to build scale in four higher-growth key markets in the Pacific Alliance region. Its core Canadian banking business is highly profitable with a return on equity of close to 19%, which would be closer to 23% were it not dragged down by the temporary acquisition costs.

Along with the other core businesses, Bank of Nova Scotia makes ample money to make acquisitions in its core markets, while paying a generous dividend for a yield of about 4.8% today.

While the market has temporarily lost confidence in Scotiabank with this year's underperformance (earnings-per-share growth essentially flat), it offers income and long-term investors' opportunity to load up the stock at a meaningful discount for +10% total returns over the long haul.

A&W

A&W Revenue Royalties Income Fund (TSX:AW.UN) collects 3% of royalty income from every sale of A&W restaurants across Canada. Currently, there are about 934 restaurants.

Apart from benefiting from a growing list of restaurants, A&W also benefits from sales growth at the locations. In the past 10 years or so, there was only one year in which it had negative same-store sales growth.

This translates to an extremely stable stream of royalty income that pays out A&W's awesome monthly cash distribution. Right now, A&W offers a nice yield of 5.2%.

A&W's non-eligible dividends are taxed at a higher rate than eligible dividends. The CRA will therefore get more taxes from you if you hold A&W shares in a non-registered account. By holding A&W stock in a TFSA, you'll receive and enjoy the full cash distribution tax free!

The shares have come off substantially from a high, resulting in a decently-valued stock for purchase. Remember to set a limit order instead of a market order to secure the buy price you want, as the dividend stock isn't very liquid.

Investor takeaway

The TFSA is one of the best tools to invest in for outsized returns. Max out your TFSA contribution room by investing in quality dividend stocks like Scotiabank and A&W to take full advantage of it.

Stay hungry. Stay Foolish.

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3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
3. TSX:BNS (Bank Of Nova Scotia)

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