TFSA Pension: 2 Top Dividend Stocks for Reliable Tax-Free Income

Description

Canadian retirees are searching for ways to boost the returns they get on their savings without being bumped into a higher tax bracket or putting their OAS payments at risk of a clawback.

One strategy involves using the Tax-Free Savings Account (TFSA) to hold dividend stocks. The distributions paid by many of Canada's top companies provide a better yield than fixed-income alternatives, and the best stocks raise the payouts annually.

Let's take a look at two dividend stocks that might be interesting picks right now for an income-focused TFSA.

TC Energy

TC Energy is a giant in the North American energy infrastructure sector with pipelines, storage facilities, and power generation sites located in Canada, the United States, and Mexico.

In total, the company has $100 billion in assets that primarily consist of regulated businesses. This means the revenue stream and cash flow available for payouts to shareholders should be predictable and reliable.

TC Energy is currently working on $30 billion in development projects that are expected to support ongoing dividend hikes of 8-10% per year through 2021. Management says the company will not issue new stock to help finance the capital plan. This is positive for income investors, as it helps ensure their holdings will not be diluted.

The company is large enough that it can find new tuck-in projects across the asset base and has the financial clout to make strategic acquisitions to drive long-term growth. TC Energy's current market capitalization is above $60 billion.

Investors who buy the stock today can pick up a 4.4% yield with attractive dividend growth on the horizon.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) relies on the Canadian operations for the bulk of its revenue and profits, with a heavy focus on residential housing loans. This has been a point of concern for the market, and a recession in Canada would likely hit CIBC harder than its larger peers.

That said, management has done a good job in the past two years to diversify the revenue stream through more than US$5 billion in acquisitions south of the border. The new businesses provide a good platform for ongoing growth in the United States. CIBC has indicated it would consider additional purchases with an eye on wealth management.

The Canadian economy remains in good shape and the rebound in the housing market over the past few months should start to show up in the results in fiscal 2020. CIBC continues to make good money and has a strong track record of raising the dividend.

The stock appears cheap right now at just 10 times trailing 12-month earnings. Investors who buy today can pick up a yield of 5% while they wait for the market to give CIBC a better multiple.

The bottom line

TC Energy and CIBC are top-quality income stocks that pay attractive and growing dividends. If you only buy one, I would probably make CIBC the first pick right now. The stock appears oversold and offers a very attractive yield.

Diversification is always recommended, and the TSX Index is home to many top dividend stocks that provide reliable distributions for TFSA income portfolio.

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2. Dividend Stocks
3. Investing

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