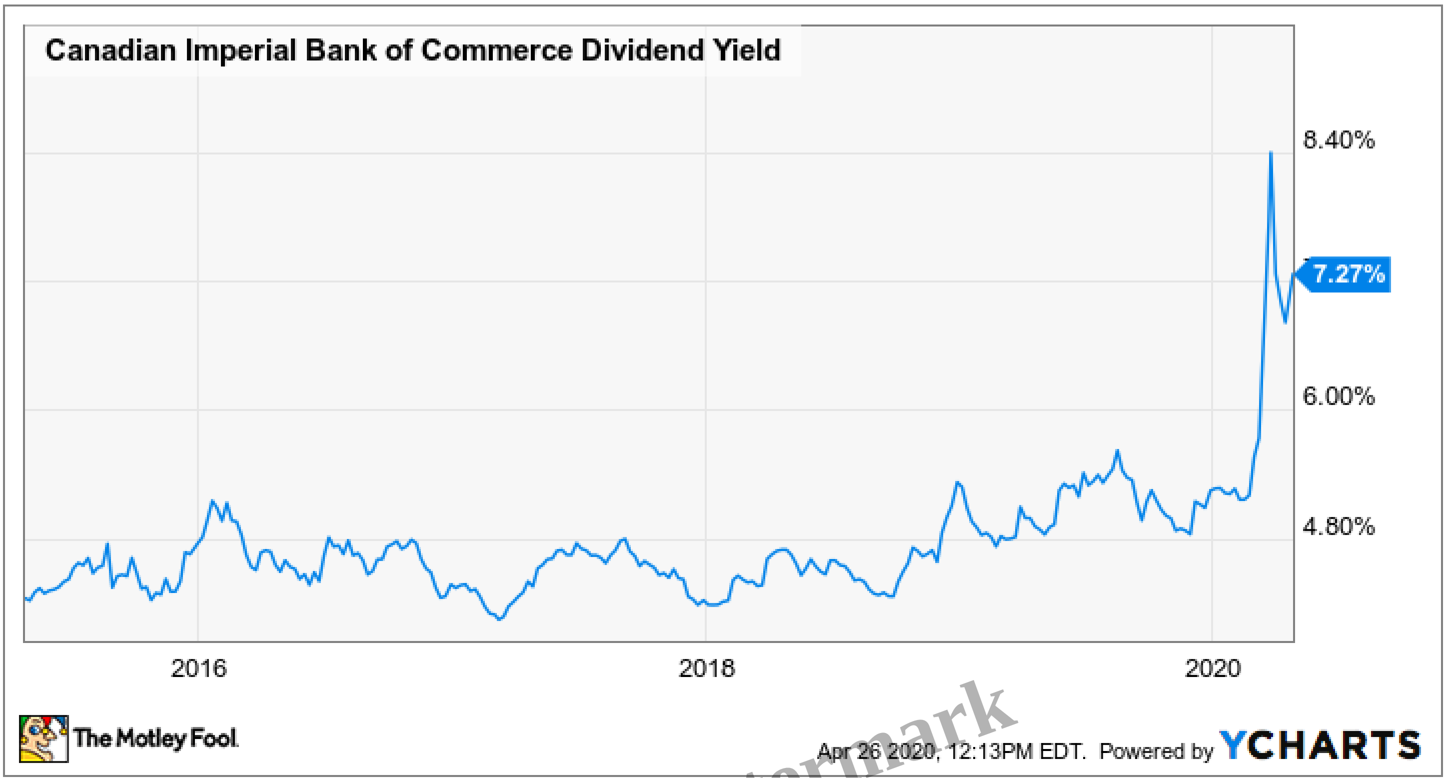
TFSA Investors: Make More Than $1,800 in Tax-Free Dividends by Investing in This 1 Stock

Description

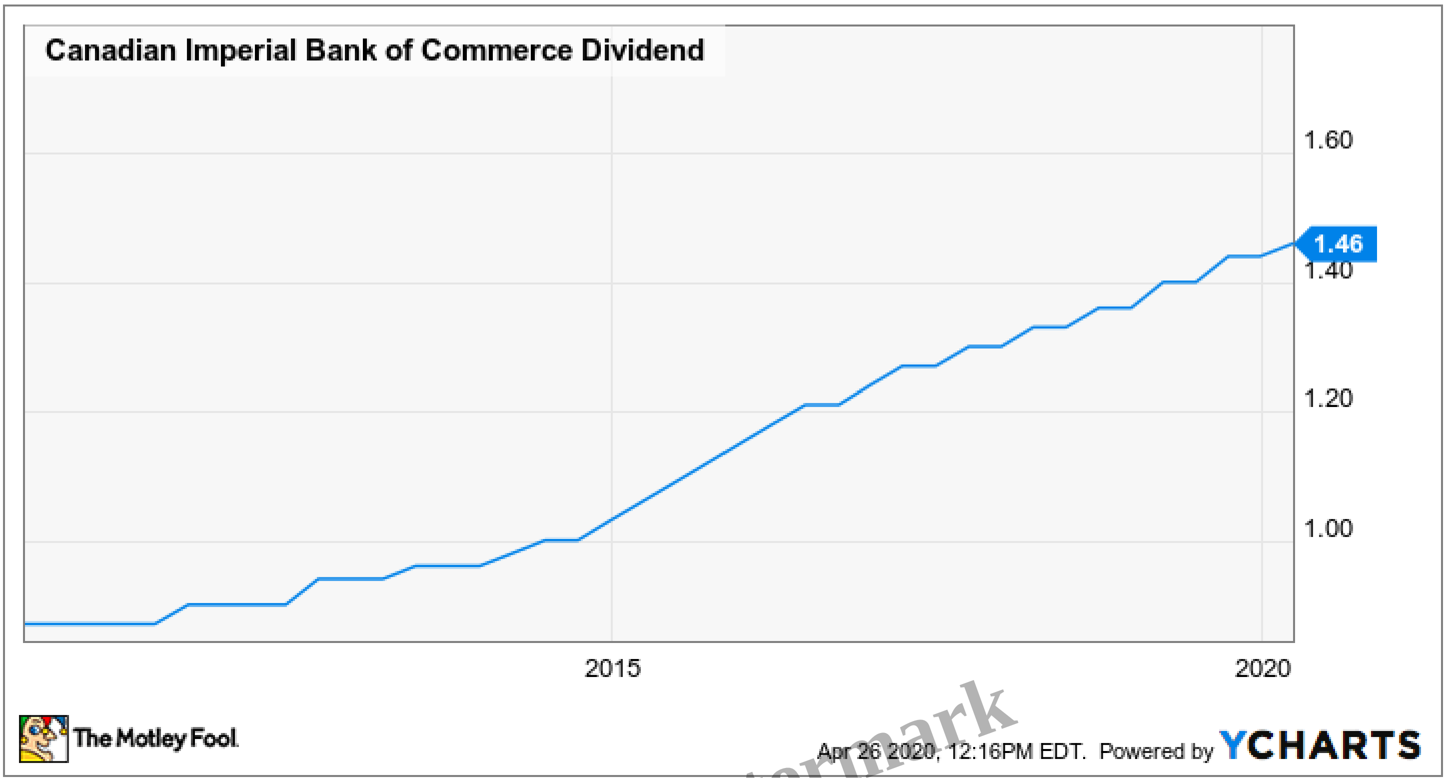
If you've got some savings built up, now could be a great time to pick up some high-yielding dividend stocks that are on sale. And inside a Tax-Free Savings Account (TFSA), you also have the ability to shield that dividend income from the taxman. A good dividend stock can provide strong recurring cash flow for your portfolio for many years, and that's what investors can expect with **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

The Big Five bank stock currently pays investors a quarterly dividend of $1.46. If you can buy the stock around $79 per share, then that means you'll earn an annual dividend yield of around 7.4%. That's an incredible payout from a bank stock, and it's not one that you'd normally get from CIBC if not for the market's recent decline. Here's where its yield has been historically:



CM Dividend Yield data by YCharts.

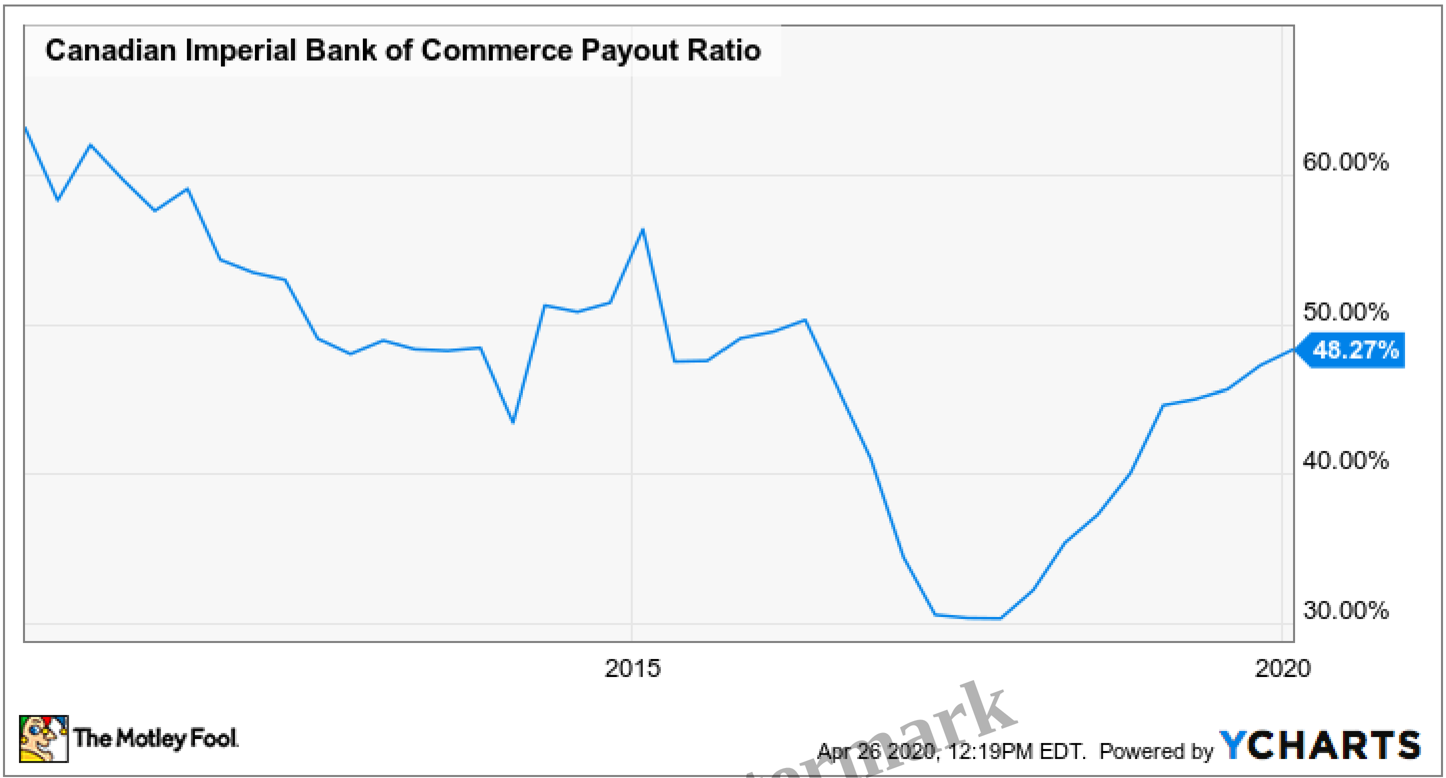
Even if the bank stock stops raising its payouts in light of the tougher economic conditions ahead, you'll still earn a great dividend. For instance, if you were to invest $25,000 into the stock today, you'd be able to earn more than $1,800 in dividend income annually. And if you made that investment inside a TFSA, then that' income is tax-free. There's still significant potential for that dividend income to rise over the years, as CIBC has raised its payouts pretty consistently in the past:



CM Dividend data by YCharts.

The financial crisis of a decade ago led to many financial stocks halting their dividends or at least stopping their growth. But as you can see, since then, CIBC's dividends been on a very strong, upward trajectory. There's never any guarantee when it comes to dividends, but bank stocks are typically some of the safest dividend stocks that you can hold. They normally don't have pressing needs for cash to invest in expensive growth initiatives, and so there's plenty of room for them to pay dividends.

Here's how CIBC's payout ratio's been over the years:



CM Payout Ratio data by YCharts.

Even if the bank stock's earnings take a hit this coming year, there's plenty of room for CIBC to take be able to absorb it. The payout ratio is very manageable at less than 50%, and a slight spike shouldn't put it at much risk.

Bottom line

Bank stocks are a great place to invest right now. While there's reason to be bearish on their outlook over the next one to two years, once the economy gets back to normal, they'll recover like they always do. However, investors who wait may miss out on a terrific opportunity today. It's not often you can lock in a [dividend stock](#) like this at such a great yield, and it could produce some significant income for you for many years.

CIBC and other bank stocks can be solid investments to build your portfolio around, because regardless of how they may perform in the [short term](#), they're excellent long-term buys that will help grow your wealth over the years.

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