TFSA Income Investors: Big Dividend Stocks to Buy in 2020

Description

The Tax-Free Savings Account (TFSA) is one of the best tools for Canadian income investors to build a substantial passive-income stream. Each year, eligible Canadians get additional contribution room.

The TFSA 2020 contribution room is $6,000. This means you can contribute $6,000 of your money in your TFSA for tax-free returns this year. You can use the amount to earn interest and dividend income from investments!

However, you could have accumulated even more room from previous years. Check with the Canada Revenue Agency for your unique amount.

The COVID-19 economic downturn gives income investors a wonderful entry point to buy dividend stocks for a massive passive income.

Earn tax-free income from BCE

As the largest telecom in Canada, **BCE** (TSX:BCE)(NYSE:BCE) offers stable wireless, wireline, and media products and services to its customers. It just reported its first-quarter results this month, and they were stable.

Revenues only fell 1% year over year to $5,680 million. Adjusted earnings and adjusted EBITDA even climbed 4% and 1%, respectively, to $720 million and $2,442 million. Adjusted earnings per share rose 4% to $0.80.

Some investors may worry about the dividend safety, as the big telecom pays out a quarterly dividend of $0.8325 per share currently. That implies a Q1 payout ratio of 104%!

However, BCE strongly supports its generous dividend, which it has increased for 12 consecutive years, including the 5% increase in Q1. Moreover, on its website, it shows that it’s maintaining the same quarterly dividend for the remainder of the year.

Investors should note the company generates strong cash flow and has a strong liquidity position. In Q1, it generated $668 million of free cash flow versus $752 million of dividends it paid out. At the end of the quarter, it had $3.2 billion of liquidity. Simply put, BCE has the combined cash and cash flow to maintain its big dividend, which yields 6.1% at writing.

That said, because of the high uncertainty surrounding the COVID-19 situation, BCE pulled its guidance for 2020. Cautious investors should revisit the stock at $51 or lower for a lower entry point and a higher yield of at least 6.5%.

Buy H&R REIT in your TFSA

H&R REIT (TSX:HR.UN) just cut its cash distribution by half, bringing its high yield of 16% down to a more sustainable, big yield of 8%.

Unfortunately, there's an industry-wide impact on REITs, particularly on retail properties, due to the fight against the spread of COVID-19.

Many businesses are mandated by the government to close. Only essential ones like grocery stores are open for business.

That said, the COVID-19 situation in Canada is milder than in the United States. Therefore, the Canadian economy is likely to improve sooner than south of the border. H&R REIT has about 70% of its properties in Canada. So, it should experience a quicker recovery than its peers that have greater U.S. exposure.

Moreover, H&R should be more resilient than retail REITs thanks to being diversified. Currently, it collects about 44%, 33%, 17%, and 6%, respectively, of its rents from office, retail, residential, and industrial properties.

H&R REIT's cash distribution can consist of capital gains, other taxable income, and foreign non-business income. Therefore, it's better to hold the stock in an RRSP or TFSA to simplify tax reporting.

The Foolish takeaway

By buying these dividend stocks on dips in their TFSAs in 2020, patient investors will receive big passive-income tax free while ensuring long-term price gains.

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Date
2025/08/25
Date Created
2020/05/18
Author
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