CRA Can't Tax This Income: 2 TFSA Top Picks for Tax-Free Dividends

Description

Your Tax-Free Savings Account (TFSA) is an invaluable tool that can help you legally shelter your capital gains and dividends from the Canada Revenue Agency (CRA).

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If you've been falling behind on your annual contributions or have yet to contribute $6,000 for 2020, now is as good a time as any to do so and use the proceeds to invest in two compelling dividend stocks that look dirt-cheap in today's rocky market.

Without further ado, consider stashing the following two stocks in your TFSA for tax-free dividends:

Suncor Energy: Recently-cut dividend that TFSA investors should consider

Suncor Energy (TSX:SU)(NYSE:SU) had an eventful last few months. The stock cratered amid the coronavirus crash, plunging over 60% from peak to trough before partially rebounding. The company slashed its dividend by 55% as it took the axe to capital spending once again.

Suncor stock was absurdly volatile as the coronavirus-induced demand shock caused oil prices to fall into negative territory before abruptly bouncing back to around US$30, where WTI sits today.

To many TFSA investors, Suncor's dividend reduction was unforgivable. These are unprecedented times where investors need their income payments most. Today, Suncor's dividend yields a modest 3.5% — definitely nothing for income investors to write home about.

For those willing to forgive and focus on the road ahead, though, Suncor could offer amplified upside as energy pressures gradually wear off and oil demand recovers in conjunction with the global economy.

Just a week ago, Suncor was named as one of four Canadian energy firms that were 'blacklisted' by the world's largest wealth fund over high emissions. While it's been a tough few weeks for Suncor, with shares trading at just under book (0.98 times book), there's a significant margin of safety to be had by value hunters seeking significant upside come the market recovery.

SmartCentres REIT: A colossal distribution fit for deep-value TFSA investors

SmartCentres REIT (TSX:SRU.UN) is a battered REIT that lost over half of its value amid the coronavirus crisis. As the economy reopens for business, SmartCentres REIT has a lot to gain, as Canadians are given the green light to gradually head back to their favourite brick-and-mortar retailers.

In a prior piece, I noted that the damage done to shares of SRU.UN was overdone given that I believed the headwinds were temporary and far more benign in nature than most made them out to be.

Yes, the coronavirus will change the retail landscape forever, but that doesn't mean malls are going to remain deserted when it's safe to return into the realm of the physical!

"The REIT recently revealed decent first-quarter results that saw funds from operations (FFO) increase $7.7 million. While occupancy levels remained incredibly high at 98%, the trust did face approximately 70% rent collection level that would call for rent deferral programs," I wrote.

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"With a near-10% yield, SmartCentres may have to axe its distribution if this pandemic drags on longer than expected. Regardless, in a return to normalcy, I see Smart quickly re-instantiating its distribution should it be reduced, making SRU.UN a must-buy TSX value stock."

If you're looking for a deep-value income investment, it's tough to match SmartCentres here, given the excessive negativity that I believe to be unwarranted. While the 9.4% distribution yield certainly isn't the safest in the world, even with a Suncor-like dividend reduction factored in, Smart is still a worthy buy for TFSA investors at these depths.

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