TFSA Retirees: Generate an Extra $7,920 With This Ultimate Dividend Portfolio and Pay Zero Taxes to the CRA

Description

One of the main factors that can hit retirees hard is the rising cost of living. It can become difficult to lead a comfortable life in retirement if you only rely on pension payments. Falling interest rates have also swayed investors away from fixed-income products that can generate a passive revenue stream.

However, the TFSA (Tax-Free Savings Account), which was launched in 2009, provides a flexible investment option for retirees. The cumulative contribution for the TFSA stands at $69,500 for an individual. This cumulative TFSA contribution room rises to $139,000 for a retired couple.

The TFSA protects your dividends, interests, and capital gains from CRA (Canada Revenue Agency) taxes. Further, any withdrawals from this account are not calculated as part of your net world income and can reduce CRA clawbacks.

Retirees need to generate a passive-income stream and allocate dividend stocks to their TFSA. Quality dividend stocks are trading at a lower valuation due to the recent market correction. This provides an opportunity for retirees to benefit from long-term capital gains, too.

Benefit from a high yield on cost

Retirees can look to invest in companies with a stellar dividend-growth history and low payout ratios. A dividend-growth strategy is popular, as it provides long-term investors with high yield on cost.

For example, Canada's energy giant, **TC Energy** (TSX:TRP)(NYSE:TRP) increased its quarterly dividends from $0.8 per share in 2020 to $3.24 per share in 2020.

TC Energy stock was trading at a price of $12 at the start of 2000. So, if you'd invested $5,000 in this pipeline stock and bought 416 shares, you would have generated over $330 in annual dividend payments for 2000.

Over the years, dividend payments would have increased to the current annual payout of $1,347, given

its dividend per share of $3.24. This means while TC's dividend yield on your $5,000 investment was just over 7% in 2000, it now stands at a staggering 27% (based on the $5,000 investment in 2000).

This is why you need to allocate funds to dividend-growth companies and benefit from a high yield on cost. TC Energy has a payout ratio of less than 50% and has enough room to increase these payouts in the upcoming years.

Top dividend-growth stocks for your TFSA

We'll look at seven such TSX stocks that have a strong history of dividend increases for retirees to invest right now. **Canadian Utilities** has the longest history of dividend increases among Canadian companies, followed by **Fortis**.

While Canadian Utilities has increased dividends for 48 consecutive years, Fortis has done so for 46 years. Canadian Utilities has a forward yield of 5.3%, while this figure for Fortis is 3.72%.

Below are five Canadian companies that have increased dividends for 25 consecutive years:

- **Bank of Nova Scotia** with a yield of 6.4%
- TC Energy with a yield of 5.6%
- **BCE** with a yield of 5.9%
- **Enbridge** with a yield of 7.8%
- **TD Bank** with a yield of 5.2%

These companies have strong fundamentals that have allowed them to increase dividend payouts, even during challenging economic conditions. This portfolio will also provide investors with enough diversification, as it includes quality stocks from the energy, utility, banking, and telecom sectors.

If retirees can invest $139,000 equally in these seven Canadian heavyweights, the annual dividend payout will be over $7,900. Given their history of dividend increases, this amount should increase over time.

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