TFSA Investors: Get Tax-Free Income From These 2 Big Dividend Stocks

Description

The Tax-Free Savings Account (TFSA) is a wonderful tool to build your wealth. Some people earn interest income from GICs in their TFSAs. However, the TFSA is not simply a savings account. You can get much more out of it by treating it as an investment account.

Thankfully, despite a low interest rate environment, Canadians can still earn substantial income from big dividend stocks. Here are two that I particularly like right now.

Get big dividends from Capital Power

Capital Power (TSX:CPX) just reported its second-quarter results today. As of writing, the stock has responded positively by appreciating 2.5%.

For the quarter, results were solid and met management expectations. Therefore, management reaffirmed its 2020 guidance that it put out in late 2019.

To shareholders' delight, Capital Power increased its dividend per share, as it promised it would. The dividend hike was a very respective growth of 6.8% and marks the seventh consecutive year of dividend growth for the utility.

The quarterly dividend's new annualized payout is $2.05. This implies a juicy yield of 7.3%, as the stock trades at $28 and change per share. Investors can look forward to more income increases in the future, as management promises to increase the dividend by 7% next year and 5% in 2022.

Capital Power highlighted that it's making "very good progress" on its renewable projects — the Whitla wind project and Strathmore solar project, which are expected to be in service in late 2021 and early 22, respectively.

On top of nice income, the utility could deliver price appreciation of about 19% over the next 12 months as well, according to analysts.

By buying Capital Power in your TFSA, investors can bank on great income and price appreciation over the next few years.

Generate 6.7% income from H&R REIT

H&R REIT (TSX:HR.UN) made the right move by cutting its dividend by half in May. It was better for it to do it earlier rather than later with the high uncertainty from COVID-19 disruptions, which was hitting its retail properties hard.

The diversified REIT collected rents of only 59% and 50%, respectively, from its retail portfolio in April and May. Thanks to the much greater defensive nature of H&R REIT's other assets, office, industrial, and residential, it collected overall rents of 85% and 80%, respectively, in those months.

Because of the huge cut in its stock price, H&R REIT still offers a big dividend of 6.7% today. At $10 and change per share, H&R REIT trades at a massive discount of 54% from its Q1 net asset value.

In a more normalized economy, the stock can trade much higher — almost a double — and it can also at least partially recover its dividend. Analysts think the income stock can climb 45% over the next 12 months.

H&R REIT's cash distribution can comprise capital gain, other income, foreign income, and return of capital. To save unitholders tax-reporting headaches, you can ignore all that if you buy and hold the stock in your TFSA.

The Foolish takeaway

If you're not earning enough income due to low interest rates, and you have an investment horizon of at least three years, consider buying solid, big dividend stocks like Capital Power and H&R REIT in your TFSA for tax-free income.

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TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

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