How to Earn $5,600 in Annual TFSA Income That the Canada Revenue Agency Can't Tax

Description

While the tax-paying deadline is just a day away, you need to look at the various tax breaks that can help you lower the amount owed to the Canada Revenue Agency (CRA). However, there is one account that the CRA cannot tax, and that is the Tax-Free Savings Account (TFSA).

The TFSA was introduced back in 2009, and while contributions to this registered account are not tax deductible, any withdrawals in the form of capital gains, interest, or dividends are absolutely tax-free.

This makes the TFSA an ideal vehicle to hold quality dividend stocks with attractive yields. Right now, companies in the energy sector are trading at beaten-down valuations, making them good bets for income and contrarian investors.

The COVID-19 pandemic resulted in global shutdowns that negatively impacted oil demand. Further, investors were already worried regarding the price war between Russia and Saudi Arabia. The one-two punch resulted in an unprecedented sell-off among energy stocks.

Shares of Canada's energy infrastructure company **Enbridge** (TSX:ENB)(NYSE:ENB) are trading 30% below its 52-week high. This means its forward yield is close to 8.1% given its stock price of $40.25 and dividend per share of $3.24.

Enbridge should be on top of your investment radar

Let's take a look at why Enbridge stock is a good bet for your TFSA right now. Enbridge has been a massive wealth creator for long-term investors. For example, if you'd invested $1,000 in Enbridge stock 40 years back, it would be worth $36,000 today. If you add dividend payments, total returns balloon to a stellar $150,000.

Similar to other Dividend Aristocrats, Enbridge has also been able to grow earnings and revenue at a steady pace over time, which has helped it increase dividend payouts at an enviable rate. In the last 25 years, the company has increased dividends at an annual rate of 11%, which has helped it outpace the total returns of the S&P 500 and other major indexes.

The Canadian giant has acquired new oil and gas pipelines as well as storage and renewable power-generating assets, allowing it to generate stable cash flows. It expects cash flow to grow between 5% and 7% through 2022, which will mean Enbridge will continue to increase dividends in the upcoming quarters.

The energy sector is swirling in turmoil, but it seems Enbridge is almost immune to the dreaded virus. In Q2, the company's EBITDA rose 3.2% year over year from $3.2 billion to $3.31 billion.

The cumulative TFSA contribution limit is $69,500

Enbridge continues to invest in the future. Since 2002, it has invested $8 billion in renewable energy and has a net capacity of 1.8 GW of renewable power in North America. In the June quarter, the company's renewable business reported sales of $150 million, while earnings from this business soared 50% year over year.

Enbridge is a domestic giant with a strong balance sheet and a conservative payout ratio. It has a resilient business model and is insulated from fluctuating commodity prices, making it a safe bet for long-term TFSA investors.

The cumulative TFSA contribution limit stands at $69,500. So, if you invest $69,500 in Enbridge stock, you will generate $5,630 in annual tax-free dividend payments. While it is not prudent to allocate all your funds in one stock, you can use this as a starting point to identify similar companies that have the potential to generate long-term wealth.

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