Canadian Dividend Tax Credit: 1 Top TSX Stock to Buy if Your TFSA Is Full

Description

Many TFSA (Tax-Free Savings Account) investors were likely disappointed when Canadian prime minister Justin Trudeau rolled back the annual TFSA contribution limit from $10,000 to $5,500 (the annual contribution limit since been raised to $6,000 as of 2019).

The TFSA is a powerful tool for young Canadian investors to grow their wealth over the course of decades. Given there's no telling what shape the social security safety net will be in 30 years, young investors like those in the millennial cohort need to take command of their financial futures by sticking with a disciplined, long-term plan that entails consistent TFSA contributions while using the proceeds to invest across a diversified range of securities.

Could the $6,000 annual TFSA limit be on hold?

With the coronavirus pandemic taking a toll on the Canadian economy, there's no telling what the CRA (Canada Revenue Agency) will do with the TFSA annual contribution trajectory this decade. The 2021 limit is expected to be $6,000. But given the swelling federal deficit, there's no question that one can expect the annual limit to remain stuck at or around $6,000 for many more years to come, even if we're due for an uptick in the rate of inflation.

Fortunately, for Canadian investors who've maxed out their TFSAs, there are other accounts, including the RRSP, to put to use. Given the arbitrary "strings" attached to the account, though, the RRSP isn't as popular as the TFSA for younger investors, many of whom have opted to take a raincheck on the RRSP altogether. There's no question that today's young investors value flexibility and ease of use.

Some have opted to use non-registered accounts for investments that no longer fit in their TFSAs, rather than opening RRSPs with a local bank, despite any compelling promos. After the horrific pandemic, there's no telling where today's young Canadians will be over the medium term. The last thing anyone wants is a financial penalty for withdrawing funds from an account to make the month's rent in an emergency.

Non-registered accounts, while subject to CRA taxes, are still worthy places to hold investments that no longer fit in your TFSA (or RRSP if you've opted to use it), especially if you're looking to invest in Canadian, high-yielding dividend stocks.

You see, there exists a dividend tax credit to incentivize investing in homegrown dividend-paying businesses. Of course, any capital gains raked in will be taxable by 50%. Still, if you're like many young Canadians who desire to buy and hold dividend stocks for decades at a time, non-registered accounts are still worthy places for your domestic dividend-paying stocks if you've already maxed out your TFSA.

What are some Canadian dividend stocks that are also great outside your TFSA to get the CRA dividend tax credit?

Canadian-grown dividends can allow non-registered investors a shot to have their cake and eat it, too, especially if they find themselves in the lower income bracket. While any eligible Canadian dividend stock can allow you to get the CRA's dividend tax credit, I'd urge younger investors to look to some of the better opportunities that have opened up in recent months following the 2020 COVID market crash that many Canadian dividend stocks have yet to recover from. The bar has been raised on the yields of such battered stocks, yet many swollen payouts remain healthy, even in the face of the second wave of COVID cases.

One of my favourite plays is **Enbridge** (TSX:ENB)(NYSE:ENB), which has been absolutely hammered this year. The stock sports a 8.7% yield that could pass the 9% mark amid its downward trajectory. Although the company has its fair share of baggage amid seemingly insurmountable headwinds, I'd argue that given the shareholder-friendly nature of management and the brighter days ahead with **Pfizer's** 90% effective vaccine, that now is as good a time as any to scoop up the name, especially for TFSA investors who are looking to buy something for their non-registered accounts.

Enbridge stock has been wildly volatile, and it's probably not out of the woods yet. The name gives you a chance to lock-in a big dividend yield (to go with dividend tax credits) alongside a shot at outsized gains beyond 2020. If you take a capital loss, you'll be able to offset gains elsewhere in your non-registered account.

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Date
2025/08/23
Date Created
2020/11/16
Author
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