Canada Revenue Agency: How TFSA Investors Can Earn $25,000 in Tax-Free Income in 2021

Description

Taxes are a financial burden that can't be avoided. However, the Canadian government introduced the TFSA (Tax-Free Savings Account) back in 2009, which allows residents to generate income without paying a single dollar in taxes to the Canada Revenue Agency.

TFSA withdrawals are not subject to Canada Revenue Agency taxes

The TFSA is a registered account where Canadians can hold a variety of investments that include stocks, bonds, mutual funds, GICs, and ETFs. Though contributions towards the TFSA are not tax deductible, any withdrawals are exempt from Canada Revenue Agency taxes.

The TFSA contribution limit for 2021 is $6,000, which takes the cumulative contribution room to $75,500. Due to tax-free withdrawals, it makes sense to hold quality dividend-paying stocks in this registered account.

Investors can benefit from a steady stream of recurring income as well as capital gains over the long term. Further, blue-chip companies also increase dividend payments, which will help you grow long-term wealth.

We'll take a look at one of the top dividend-paying stocks on the TSX and analyze why it is a good pick for your TFSA.

Enbridge is perfect for your TFSA

The energy sector has been among the worst-performing ones in 2020. As oil demand cratered amid the pandemic, crude oil prices were also driven to multi-year lows by the price war between Saudi Arabia and Russia.

Several energy companies cut or suspended dividends earlier this year, as oil drilling became unprofitable. Understandably, investors sold their positions, and companies in the energy space continue to trade at a depressed valuation.

However, pipeline companies such as **Enbridge** (TSX:ENB)(NYSE:ENB) are well diversified and relatively immune to volatile commodity prices. Enbridge in fact generates over 90% of its EBITDA from regulated or long-term contracts. This robust business model has helped it maintain its dividend payouts in 2020.

ENB stock is trading at $41.56, which means its dividend yield stands at a tasty 7.8%. If you allocate $75,500 to Enbridge stock, you can generate $5,890 in annual dividends. Further, analysts tracking the stock have a 12-month average price target of $51, which is 23% higher than the current trading price.

We can see after accounting for dividends and capital gains, investors can derive close to $25,000 in total returns in the next year.

Enbridge has increased dividends by 11% per year since 1995

Enbridge has increased dividends at an annual rate of 11% since 1995. Its predictable cash flows and expansion programs will allow investors to benefit from higher payouts in later years. Enbridge is also investing heavily in renewable energy, which will diversify its asset base.

We can see how investing in a company with strong fundamentals and an investment-grade balance sheet will allow you to generate a predictable income stream. Enbridge's cheap valuation will also drive its stock price higher in 2021, especially if oil prices stage a rebound.

Here, the assumption is that Enbridge stock will not lower its dividends and will also gain momentum to reach average consensus price target estimates. While it does not make sense to allocate a huge chunk of capital into one stock, investors can use this article as a starting point for their research and identify similar undervalued companies with attractive dividend yields.

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