Canada Revenue Agency: How TFSA Investors Can Earn $19,000 in Tax-Free Income in 2021

Description

The Canadian government introduced the TFSA (Tax-Free Savings Account) back in 2009. Anyone with a valid social insurance number above the age of 18 can open and contribute to the TFSA.

What is the TFSA and how does it work?

The TFSA is more like an investment account where Canadians can hold a range of financial products, including stocks, bonds, ETFs, GICs, and mutual funds. The Canada Revenue Agency will not tax any withdrawals from your TFSA which means you can derive tax-free returns in the form of capital gains, interest, or even dividends.

However, the Canada Revenue Agency has an annual contribution limit that you can allocate to this registered account. For 2021, this annual contribution limit is $6,000, which means the cumulative contribution room is now $75,500.

Investors should look to hold blue-chip, dividend-paying stocks in the TFSA. Dividend stocks allow you to generate a steady stream of recurring income as well as grow your capital via stock appreciation over the long term.

Quality companies with strong financials also increase dividends consistently helping you to build long-term wealth and benefit from higher payouts in later years. We'll take a look at one of the largest Canadian companies on the TSX and why it should be on the radar of income and value investors.

TC Energy is ideal for your TFSA

TC Energy (TSX:TRP)(NYSE:TRP) is a diversified energy infrastructure company that is trading at a cheap multiple. The stock has lost 22% in market value since February due to the overall weakness in the energy sector. This means it has a tasty dividend yield of 5.6%.

If you invest $75,500 in TC Energy stock, you can generate $4,225 in annual dividends. Further, analysts tracking the stock have a 12-month average price target of $70.4, which is 20% higher than the current trading price.

We can see after accounting for dividends and capital gains, TC Energy investors can derive over $19,000 in tax-free returns in the next year.

TC Energy is valued at a market cap of $54.6 billion, indicating a forward price-to-sales multiple of 4.2. Its price-to-earnings multiple of 14.3 seems reasonable considering its attractive dividend yield.

TC Energy has a durable business model that is designed to withstand economic troughs. In Q3, its EBITDA fell just 2.1% to $2.3 billion, while cash flow per share fell 9.8% to $1.74. The company's dividend-payout ratio is a healthy 47%, allowing it to reinvest in capital expenditures, lower debt, as well as increase dividends in the future.

The company has forecast to spend $37 billion in expansion projects, which will allow it to generate 98% of EBITDA from regulated or long-term contracted assets on completion. These cash-generating assets and a strong balance sheet suggest TC Energy will increase dividends between 8% and 10% in 2021 and between 5% and 7% post-2021.

The Foolish takeaway

We have seen TC Energy's business is largely immune to oil prices. This allows it to generate stable cash flows, making a dividend cut unlikely. Its extensive project backlog will fuel dividend increases in the upcoming decade, making it a top dividend bet in the energy space.

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2. TSX:TRP (TC Energy Corporation)

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