Retirees: 2 Top Dividend Stocks for Your TFSA Ahead of the Holidays

Description

Canadian retirees use the TFSA to hold top dividend stocks that provide steady, tax-free income.

TFSA advantage

The TFSA is a great tool for seniors. The cumulative TFSA limit is $69,500 in 2020 and will increase by $6,000 in 2021. This gives seniors sufficient room to invest savings and create income that complements pension payments and CPP.

All income earned from TFSA investments remains beyond the reach of the CRA. That's important for retirees who collect OAS pensions. The CRA implements a 15% pension recovery tax on OAS when a person's net world income tops a minimum threshold. The amount to watch is $79,054 in the 2020 income year.

The best stocks to buy for a TFSA income fund

The pandemic reminded TFSA investors that stock prices can be volatile. The crash in March scared everyone, but most companies with strong balance sheets and steady revenue streams recovered most of the losses. Others still trade at attractive levels and should bounce back by the end of next year.

In the current environment, it makes sense to seek out dividend stocks that will continue to raise the distribution in 2021 and beyond.

Is Fortis stock a good buy for a TFSA income fund?

Fortis (TSX:FTS)(NYSE:FTS) owns more than $50 billion in utility assets spread out across Canada, the United States, and the Caribbean. The company grows through acquisitions and development projects. Its current $19.6 billion capital program will significantly boost the rate base over the next five years.

In fact, Fortis expects cash flow to improve enough to support average annual dividend increases of 6% through 2025. The board raised the payout in each of the past 47 years, so the guidance should be solid. If you want a TFSA income pick to simply buy and forget, Fortis is a good choice in the low-rate era.

Low interest rates benefit Fortis in two ways. The company can borrow funds at very low rates to fund the capital projects. The reduced interest expense leaves more cash flow available for distributions. Low rates also make utility stocks with reliable dividends more attractive to investors who might normally buy GICs.

Fortis currently trades near $53 per share and provides a dividend yield of 3.8%. The 12-month high is $59, so there is potential for 10% upside next year as the economy recovers.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) used to be called TransCanada. The company is a major player in the natural gas transmission industry. TC Energy also owns power-generation facilities and oil pipelines.

The company's Keystone XL oil pipeline might not get built, but TC Energy has adequate other developments on the go to drive growth for several years. The total secured capital program through 2023 is $37 billion with $11 billion in projects already under development.

TC Energy reported strong Q3 2020 results.

The board intends to raise the dividend by 8-10% in 2021 and by an average of 5-7% per year over the long term. That's great guidance for TFSA income investors in these uncertain times.

TC Energy stock trades close to $58 per share at the time of writing and provides a 5.5% dividend yield. The 12-month high on the stock is $76, so the upside opportunity remains attractive.

The bottom line

Fortis and TC Energy have long track records of reliable dividend growth. The stocks appear reasonably priced right now and could deliver nice gains in 2021.

The **TSX Index** is home to many top dividend stocks that still appear oversold and deserve to be on your TFSA income radar.

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aswalker