Canada Revenue Agency: Earn $18/Day in Tax-Free Dividend Income for a Lifetime

Description

The face of investing has changed. Investors are becoming more risk-takers and investing in growth stocks. These new-age investors are willing to start saving at an early age and even retire early. If you started investing $5,000 every year in the stock market through Tax-Free Savings Account (TFSA) back in 2009, you would now have more than $60,000. The pandemic has created a once-in-a-decade opportunity to lock in an $18/day dividend income for a lifetime that will not be added to your taxable income.

The Canada Revenue Agency (CRA) offers many options to help you plan your taxes and investments simultaneously. TFSA is one such option in which, your current contribution is taxed, but your future withdrawals are exempted from tax.

How to earn $18/day in tax-free dividend income

The pandemic has significantly lowered the price of top dividend stocks as investors feared that the economic crisis would impact their dividends. But some Dividend Aristocrats managed to recover their earnings and cash flows faster than expected, thereby safeguarding their dividends. Some good stocks are **SmartCentres REIT** (TSX:SRU.UN), **RioCan REIT** (TSX:REI-UN), and **Enbridge** (TSX:ENB)(NYSE:ENB).

The three stocks fell between 33% and 45% during the pandemic, inflating their dividend yields to 8%-10%. The three companies stood strong and maintained their dividend per share despite declining earnings.

Now, the COVID-19 vaccine news is bringing the pandemic era to an end and setting the tone for economic recovery. The above three stocks have started to walk on the path to recovery. These stocks have surged between 13% and 22% since November 9. They still have an upside potential of 30%-55% before they return to the pre-pandemic level.

Time is running out. You can lock in more than a 7.5% dividend yield for a lifetime and also benefit from a stock price rally by investing in these stocks.

Investing in dividend stocks

Enbridge has a 25-year history of paying incremental dividends. The pipeline operator earns money by charging a toll for transmitting oil and natural gas through its pipelines. It increased its dividend even during the 2014 oil crisis and the 2009 financial crisis. It is because declines in oil volumes were offset by gains in renewable energy generation, natural gas transmission, and storage.

Enbridge doesn't want to break its 25-year record and is striving to increase its dividend in the first quarter of 2021. If its distributable cash flow increases, its dividend will also increase. The COVID-19 vaccine news only reaffirmed investors' hopes that oil demand will increase, and so will Enbridge's cash flows.

Hence, Enbridge stock surged 22% along with other oil stocks since November 9, when the vaccine news floored. Its dividend yield fell to 7.85% from over 8.5%. The stock will rise further and return to the pre-pandemic level in a year or two as cash flows rise, representing an upside of 29%.

RioCan and SmartCentres REITs don't have a record of increasing dividends at regular intervals, but they have been paying regular dividends for quite some time. Their stocks took a severe hit as the pandemic made retail REIT stores empty. The two even reported a net loss in the second quarter. However, they maintained their dividend per share and turned the loss to profit in the third quarter.

The quarterly profit revived investors' confidence in the REITs' dividend-paying capacity. Hence, RioCan's and SmartCentres's stocks surged 19% and 13%, respectively. Their dividend yield reduced to 8.1% and 7.8% from more than 9% during the pandemic. The two stocks will rise another 56% and 30% in a year or two as rental income returns.

Foolish takeaway

A $20,000 investment in each of these stocks will fetch you $13/day income as early as January 2021. This income could increase to $18/day by 2030 if Enbridge increases its dividends at a CAGR of 8% and the two REITs maintain their dividend rate. Moreover, the stock price appreciation will convert your $60,000 to $82,800 in two years.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

3. TSX:REI.UN (RioCan Real Estate Investment Trust)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date
2025/07/06
Date Created
2020/12/15
Author
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