TFSA: Give Yourself the Gift of Tax-Free Income and Buy These Dividend Stocks Yielding up to 8%

Description

Just over a decade ago, Canadians were gifted with the Tax-Free Savings Account (TFSA) in January 2009. The annual contribution room started at $5,000 and has since see-sawed depending on what government has sat in power. In January 2021, the cumulative contribution room in the TFSA will expand to $75,500. That is a nice amount of room to maneuver for investors who want to generate income. Today, I want to discuss the merits of an income-focused TFSA and look at three dividend stocks that should be on your radar. Let's jump in.

Why the TFSA is the ultimate income vehicle

In November, I'd discussed why every Canadian should aspire to build a passive-income empire. One of the simplest ways to get started on this road is to start generating income in a TFSA. All capital growth and income generated in this registered account is tax free. Because of that, the TFSA has a distinct advantage over other income generation avenues.

Its only drawback is the cap on contributions, which limits your ability to gobble up dividends. Still, the contribution room in this account is likely to exceed $100,000 by the time this decade is over. That is a very solid starting point for income investors.

Three dividend stocks that churn out big income

Enbridge (TSX:ENB)(NYSE:ENB) drew negative attention in the fall, as Michigan took aim at its business. This was unfortunate, considering it was coming off some regulatory wins in Minnesota. In November, I'd discussed why investors should not be too worried about Enbridge in the near term.

This energy infrastructure giant is also a dividend heavyweight on the TSX. It last paid out a quarterly dividend of $0.835 per share, which represents a monster 8% yield. Enbridge has delivered dividend growth for over 20 consecutive years. This is a dividend stock that TFSA investors can trust for thelong term.

Scotiabank (TSX:BNS)(NYSE:BNS) is one of the Big Six Canadian banks. It is sometimes called "The International Bank" due to its impressive global footprint. Unfortunately, that came back to bite Scotia in 2020 as Latin America buckled under the pressure of the pandemic. Regardless, Scotiabank boasts a strong business and an excellent balance sheet.

This bank stock last had a solid price-to-earnings (P/E) ratio of 12 and a price-to-book (P/B) value of 1.3. TFSA investors on the hunt for income should look to its quarterly dividend of $0.90 per share. That represents a strong 5.2% yield.

One more dividend stock with great value I love for a TFSA

An income-focused TFSA should not turn a blind eye to value, especially in a market that looks overheated right now. **Manulife Financial** (TSX:MFC)(NYSE:MFC) is a top financial services and insurance firm in Canada that is worth targeting on Christmas Eve. Its shares have climbed 25% over the past three months as of close on December 23.

Manulife achieved a jump in profit in the third quarter. Its stock last possessed a favourable P/E ratio of 8.5 and a P/B value of 0.9. Moreover, it offers a quarterly dividend of $0.28 per share. This represents a very solid 4.9% yield. TFSA investors seeking income and great value should not overlook Manulife in late 2020.

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3. NYSE:MFC (Manulife Financial Corporation)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:ENB (Enbridge Inc.)
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