Enbridge (TSX:ENB) Stock Pays You $6,040 a Year in Dividends — Tax Free!

Description

Enbridge (TSX:ENB)(NYSE:ENB) is one of the highest-yielding large-cap TSX stocks. With an 8% yield as of this writing, it pays an astounding $8,000 in cash each year on every $100,000 invested. That's a pretty impressive cash payout for a $100,000 investment. Unfortunately, you'll inevitably pay some taxes on a position that large. $100,000 is too much money to contribute to a TFSA, and RRSPs aren't truly "tax free" when you go to withdraw your money. There is, however, a way to get $6,040 in ENB dividends tax-free this year. In this article, I'll explore how to do that.

Hold $75,500 worth of ENB in a TFSA

In 2020, you are eligible for up to $75,500 worth of TFSA contribution room. Any investments held in a TFSA are tax-free, so that's a $75,500 portfolio you can potentially pay no taxes on. There are only two conditions for being eligible for this $75,500 worth of tax free space:

1. You need to have been 18 or older in 2009.
2. You can't have made past contributions that lower your contribution room.

The age requirement could unfortunately be an absolute barrier to building a $75,500 TFSA portfolio. If you turn 18 this year, then you only get $6,000 worth of total space.

The "past contributions" thing shouldn't be too big of a problem. As long as you held cash, or investments with returns greater than 0%, then you can still create a $75,500 Enbridge position in a TFSA.

That produces $6,040 a year!

At today's prices, ENB stock yields about 8%. That means that a $75,500 position in it pays out $6,040 per year. That's quite a high yield for only $75,500 invested. And all it takes is a single position in ENB stock.

Of course, you should never put your *entire* portfolio all in one stock. Diversification is key to reducing risk. But you could conceivably create a diversified portfolio with an 8% average yield. For example, you could hold stocks like Enbridge, ETFs like **BMO Covered Call Utilities ETF**, and so on. With enough securities, you'd have a well-diversified portfolio with an average yield of 8%.

Is Enbridge a good business?

The fact that Enbridge stock yields 8% today doesn't mean much.

If the dividend is cut tomorrow, then you'll never see that 8%.

Before you invest in a dividend stock, you need to know whether the company is profitable enough to keep the dividends coming. While a thorough analysis of Enbridge stock is beyond the scope of this article, a few basic points about the dividend are worth mentioning:

- In the most recent quarter, the amount of dividends paid was only 66% of cash from operating activities.
- Enbridge's dividend has grown by 10% annualized over the last 26 years.
- Compared to other energy stocks, Enbridge wasn't too severely impacted by the COVID-19 pandemic. Earnings were down this year, but cash flow remained strong.

All of these facts point to Enbridge's dividend being sustainable. Of course, there are a million other factors you'd need to look at before deciding whether Enbridge was truly a worthy investment. But if we're talking about the dividend and nothing else, it looks pretty safe.

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Date
2025/09/15
Date Created
2021/01/09
Author
andrewbutton