TFSA Investors: How to Earn $4,150 in Tax-Free Income Each Year

Description

The TFSA (Tax-Free Savings Account) is a popular registered account among Canadians. It is more of an investment account, as it allows you to hold financial instruments across asset classes that include equities, GICs, bonds, ETFs, and mutual funds.

Investors should note that any income generated in a TFSA in the form of interests, capital gains, or even dividends is exempt from Canada Revenue Agency taxes. So, it makes sense to hold blue-chip, dividend-paying stocks in this registered account, allowing investors to benefit from a steady stream of dividend income and long-term capital gains.

We'll look at three such Canadian dividend-paying stocks that should be part of your TFSA.

Enbridge

Canada's energy giant **Enbridge** (TSX:ENB)(NYSE:ENB) has a forward yield of 7.2%. The pipeline company has a diversified base of cash-generating assets, allowing it to increase dividends at an annual rate of 10% in the last 26 years. Despite a volatile 2020, Enbridge managed to sustain and even increase dividends, showcasing its resilient business model.

A majority of its cash flows are backed by long-term contracts, making it relatively immune to fluctuations in commodity prices. Enbridge aims to increase its distributable cash flow between 5% and 7% in the near term, which suggests investors can expect dividends to rise in the future as well. It's also focused on keeping the payout ratio below 70%, allowing the firm to increase capital expenditures and lower debt levels over time.

Bank of Nova Scotia

One of the largest financial institutions in Canada, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has a forward yield of 4.5%. The company has managed to perform well amid a sluggish macro-environment. In its fiscal second quarter of 2021, Bank of Nova Scotia reported total earnings of $2.5

billion, or $1.9o per share, which was an increase of 83% year over year.

The company's strong results were driven by solid performance across business segments. Further, its return on equity improved to 14.9% from 14.45% in the last quarter and was above the bank's medium-term objective.

Bank of Nova Scotia's revenue and net interest income fell by 3% year over year due to rate cuts associated with the Central Bank as well as changes to the company's business mix towards a "more secured retail and higher commercial property loan growth." BNS also saw a decline in provision for credit losses, which fell by 86 basis points year over year.

TransAlta Renewables

The shift towards clean energy solutions is expected to gain pace in the upcoming decade, making **TransAlta Renewables** (TSX:RNW) a solid long-term bet. With a dividend yield of 4.8%, this renewable energy giant is an ideal buy for income and growth investors.

In the first quarter of 2021, TransAlta reported revenue of $126 million, up from $110 million in the prior-year period. Its net cash flow from operations rose from $82 million to $103 million in this period.

In 2021, the company has forecast comparable EBITDA between $480 million and $520 million, while adjusted funds from operations are estimated between $335 million and $365 million.

The Foolish takeaway

The cumulative TFSA contribution stands at $75,500, which means if this amount is distributed equally in the three stocks mentioned here, you can derive over $4,150 in annual dividends. However, this is just an example of quality dividend stocks trading on the TSX. You can use this article as a starting point in your research and identify similar stocks with strong fundamentals and robust cash flows.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:ENB (Enbridge Inc.)
5. TSX:RNW (TransAlta Renewables)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/06
Date Created
2021/06/02
Author
araghunath