TFSA Investors: 2 Stock to Earn Tax-Free Dividends

Description

How much of what you earn goes in the CRA's pocket? No matter your exact tax rate, your answer would most likely be "a lot." And it's true. While taxes in Canada don't reach the height of taxes in certain European countries, they are certainly in the top tier around the globe.

And even though every citizen understands that taxes are essential, it's certainly not fun when they are taken out of your hard-earned money.

That's one of the reasons why tax education is crucial. Not only to help people realize how crucial taxes are to society and how they actually return to the public, but to inform people about deductions and credits. There are numerous ways to minimize your taxable income in Canada, and one of them is to start a tax-free dividend income stream from your Tax-Free Savings Account (TFSA).

There are two stocks you might consider for a tax-free passive income stream.

A senior-care company

According to Statistics Canada, seniors (65 years or older) made up about 17.5% of the population. And according to the Canadian Institute of Health Information, the senior population is expected to grow to 10.4 million by 2037. A statistically appropriate number of these seniors dwell in senior-care facilities, making senior housing and care companies like **Sienna Senior Living** (TSX:SIA) relatively stable businesses.

Sienna stock took a steep dive during the pandemic and fell as low as 53% during its worst valuation. Before the crash, Sienna has been a relatively steady stock. The company is still trading at a 15.7% discount from its pre-pandemic valuation, which is one reason for its juicy 5.7% yield. It's not a growth stock per se, but thanks to the recovery momentum, the stock has grown over 60% in the last 12 months.

Sienna's portfolio is divided between two different property types: retirement homes (41%) and long-term care facilities (59%). There are 83 properties in total with an asset value of about $1.6 billion.

As for the dividend income, if you can allocate a sizeable portion of a fully-stocked TFSA to this company (say, $30,000), you can start a passive income of about $1,700 a year. However, you might consider waiting for the payout ratio to stabilize first.

A high-yield financial company

Timbercreek Financial (TSX:TF) is a Toronto-based mortgage company that invests in mortgage loans for commercial properties. The company specifically targets income-producing commercial properties in order to ensure the safety of its capital. The company leverages the fact that not all traditional lenders offer loans to commercial ventures, and it's a "gap" market that Timbercreek serves.

The company is currently offering a mouthwatering 7.1% yield. The payout ratio is a bit high but the company has a history of sustaining dividends at payout ratios higher than 100%. The yield is high enough that if you invest $30,000 in the company, you can have a yearly tax-free payout of $2,130.

While revenues were decimated in 2020, the company has started to turn things around since the first quarter of 2021.

Foolish takeaway

A sizeable tax-free income helps you meet more expenses without adding hiking up your tax bill. The impact might be minimal for now, but if you choose the right dividend stocks and keep reinvesting your dividends, your payouts might grow hefty enough (by the time of retirement) to meaningfully add to your retirement income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SIA (Sienna Senior Living Inc.)
2. TSX:TF (Timbercreek Financial Corporation)

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Author
adamothman