



TFSA Investors: 2 Canadian Dividend Stocks to Buy Now

Description

The [Tax-Free Savings Account](#) (TFSA) has become a staple for many Canadian investors' strategies and helping them achieve their financial goals. The tax-sheltered account type allows you to generate tax-free earnings because you contribute to your TFSA in after-tax dollars.

It means that any revenue you earn in your TFSA, whether from interest, capital gains, or dividend payouts, can grow in your account without the Canada Revenue Agency (CRA) collecting any of it as income taxes, provided you can avoid making crucial [TFSA mistakes](#).

Given the tax-sheltered status of the account, many investors are using their TFSAs as a tax-free passive income stream by using their accounts to hold a portfolio of dividend stocks. If you can find the right combination of dividend stocks with high-quality underlying businesses, you get access to consistent and reliable payouts.

Depending on your financial goals, you can let the dividends grow as cash in your account or reinvest your dividend income to unlock the power of compounding to accelerate your wealth growth.

Today, I will discuss two high-quality dividend stocks that you can consider adding to your TFSA portfolio.

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is a top Canadian Dividend Aristocrat with one of the longest active dividend growth streaks on the TSX right now. The company has increased its shareholder dividends for the last 47 consecutive years. Fortis management plans to continue increasing its dividends at a growth rate of 6% until 2025. Trading for \$55.81 per share at writing, Fortis stock boasts a 3.62% dividend yield.

Fortis is a utility holdings company that provides gas and electric utility services to 3.4 million customers across Canada, the U.S., and the Caribbean. It generates 99% of its revenue through rate-regulated and long-term contracted assets, providing the company with predictable cash flows.

The predictable cash flows allow the company's management to comfortably fund its growing shareholder dividends, making it an ideal stock to buy and hold forever in your TFSA.

Canadian Tire

Canadian Tire ([TSX:CTC.A](#)) is another major Canadian dividend stock that you can consider adding to your TFSA for reliable dividend payouts. The company has increased its shareholder dividends for the last 17 years at an average growth rate of 15% per year. Trading for \$193.51 per share at writing, Canadian Tire boasts a decent 2.43% dividend yield.

The Canadian Dividend Aristocrat is a big name in the country, with several major names under its belt. The company faced a challenging year due to the pandemic in 2020 and its valuation declined by 50%. However, Canadian Tire managed to boost its e-commerce sales and used share buybacks to stabilize its earnings-per-share growth in 2020.

Canadian Tire stock's payout ratio is 30.58%. It means that the company's shareholder dividends are sustainable and offer substantial room for dividend growth in the coming years.

Foolish takeaway

Generating considerable tax-free income in your TFSA can serve different purposes, depending on your financial goals. You can use the passive and tax-free income to supplement your income and handle additional expenses.

You can also consider reinvesting the dividend income to unlock the power of compounding to accelerate your wealth growth and use your TFSA to create a sizeable retirement nest egg.

Regardless of how you choose to use your TFSA, using the contribution room to hold a portfolio of high-quality dividend stocks can be instrumental in helping you achieve your goals. Fortis and Canadian Tire stock could make valuable additions to such a TFSA portfolio that you can [buy and hold forever](#).

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:FTS (Fortis Inc.)

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