TFSA Investors: The 2 Best Dividend Stocks for Tax-Free Income

Description

Interest income is taxed at the marginal tax rate. So, some investors shield their interest-bearing investments in their Tax-Free Savings Accounts (TFSAs). However, common stocks have historically delivered greater long-term returns. It makes a lot of sense to hold stocks in your TFSA for greater tax-free wealth creation.

Among the thousands of stocks available, investors can choose quality dividend stocks that provide decent yields. This way, you can earn nice returns in bull and bear markets.

Here are the two best dividend stocks to buy and hold in your TFSA to generate growing income.

Brookfield Infrastructure

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP) is a wonderful dividend stock to own. It has proven itself by sustainably increasing its cash distribution since its inception. Its dividend-growth rate since 2009 is 10% per year. In that period, it increased its funds from operations (FFO) by 16% annually. The extra cash flow was naturally used to grow the business.

One of the outperforming utility's competitive advantages is being able to source unique investment opportunities from having a close relationship with **Brookfield Asset Management**, its general partner and manager. Over the years, BIP expanded its diverse infrastructure operations across the globe. It owns data centres, telecom towers, rail operations, regulated or contracted utility businesses, etc.

The growth of a long-term investment in BIP stock has been amazing. With dividends reinvested, stockholders got total returns of 24% per year. Recent returns have been outstanding as well. An investment from five years ago would have generated total returns of 21% per year.

Today, fairly valued BIP offers a safe yield of 3.6%. You could start a position in the stock if you don't own any shares. Leave room, though, to load up on a market correction, as the wonderful dividend-growth stock is pretty much a no-brainer buy and hold in TFSAs for long-term wealth creation.

Canadian Net REIT

Canadian Net REIT (TSXV:NET.UN) is another dividend stock gem to park in the TFSA for tax-free income. It is really a unique real estate investment opportunity for passive-income investors.

The REIT benefits from an advantageous business model that involves triple-net and management-free leases. This business model provides a great reduction in costs.

Properties under triple-net leases imply tenants are responsible for variable costs, such as maintenance, insurance, and taxes. Properties under management-free leases suggest tenants take care of the costs required to manage the properties, including minor renovations and maintenance.

Like BIP, Canadian Net REIT has been a solid dividend-growth stock, growing its cash distribution slower than its FFO growth. Its dividend-growth rate since 2012 is 10% per year. In that period, it increased its funds from operations by 18% annually. Management has reinvested extra cash flow into acquisition and development opportunities.

Undervalued NET.UN offers a safe yield of 3.9%. If you like the REIT after researching it, start a position in your TFSA today for tax-free, growing income. An investment from five years ago would have generated total returns of about 15% per year. If the stock pulls back 20% during a bear market, it would probably be a wonderful time to back up the truck.

For the latest updates, look out for the REIT's second-quarter financial results this Friday.

The Foolish takeaway

Both dividend stocks tend to outperform the long-term stock market returns of about 10% per year. Buying BIP or NET.UN in your TFSA when they're trading at good valuations could help you generate growing income and create long-term wealth tax-free!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSXV:NET.UN (Canadian Net Real Estate Investment Trust)

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