2 Top TSX Dividend Stocks for TFSA Passive Income

Description

Retirees and other income investors are taking advantage of their TFSA to generate tax-free passive income from top Canadian dividend stocks.

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TFSA benefits

The Canadian government launched the TFSA in 2009 to give people another option to save for future financial goals. The TFSA offers more flexibility than the RRSP for younger investors and has particular advantages over taxable investing accounts for retirees. All profits generated inside a TFSA are not taxed by the CRA. In addition, earnings removed from the TFSA do not get counted toward the net world income calculation the CRA uses to determine the OAS clawback. This is important for retirees who collect OAS and find themselves near or above the OAS pension recovery tax income threshold.

Funds removed from the TFSA open up equivalent new contribution room in the next calendar year. This is helpful for retirees who might have RRIF payments that they don't need to spend but want to invest.

Let's look at two top TSX dividend stocks that might be attractive TFSA picks right now.

BCE

Retirees have always liked owning **BCE** (TSX:BCE) (NYSE:BCE) for its reliable and generous dividends, and that trend should continue for some time. The business looks a lot different than it did in the old days, but BCE remains a dominant player in the Canadian communications industry and is investing the funds need to remain competitive in a rapidly changing digital era.

BCE recently spent $2 billion on additional spectrum to build out its 5G network. The company is also expanding its fibre-to-the-premises program that runs fibre optic lines to businesses and homes. The investments ensure BCE's customers have access to the broadband they need for personal use or work. The pandemic showed the quality of Canada's internet networks and the shift to hybrid home and work offices is expected to be the new normal.

Despite the large capital outlays, BCE still generates adequate free cash flow to support the dividend. New revenue opportunities in security, streaming, and 5G services should help drive increased cash flow in the coming years. In addition, BCE should see a rebound in lucrative roaming fees once people start traveling again for work and pleasure.

The stock picked up a nice tailwind this year but still offers a solid 5.3% dividend yield.

Emera

Emera (TSX:EMA) owns natural gas and electric utilities in Canada, the United States, and the Caribbean. These assets operate primarily in regulated markets and provide reliable and predictable streams of cash flow. That's good news for income investors who don't want to worry about the sustainability of the distributions coming from their investments.

Emera has a $7.4 billion capital program underway that is expected to boost the rate base enough to support annual dividend increases of at least 4% through next year. Additional project opportunities could extend the timeline.

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The stock is a good pick for investors who want a defensive play to ride out market corrections. At the time of writing, Emera offers a 4.3% dividend yield.

The bottom line on TFSA passive income

BCE and Emera are top-quality dividend stocks that pay attractive distributions with high yields. If you are searching for reliable passive income for a TFSA portfolio, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:BCE (BCE Inc.)
3. TSX:EMA (Emera Incorporated)

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