TFSA Investors: Can You Earn $6,000/Year Tax-Free by 2022?

Description

For Canadians who were able to start Tax-Free Savings Account (TFSA) contributions in 2009, their maximum TFSA contribution room is $75,500 this year (and $81,500 in 2022). Investors who have been maximizing their TFSAs and investing for a reasonable return of 8.5% per year would have an account balance of about $126,400 by now.

An 8.5% rate of return is reasonable using the Canadian stock market returns as a benchmark in the last 12 years. It's much better to maximize your TFSA every year than to postpone the contributions for future years. You're giving up valuable tax-free compounding time if you don't maximize each year!

A 5% yield generated from a TFSA balance of $126,400 generates $6,320 of tax-free income a year. Here are dividend stocks that average a yield of more than 5%.

Enbridge stock now yields over 7%!

This week, **Enbridge** (TSX:ENB)(NYSE:ENB) stock reaffirmed its 2021 guidance of $4.70 to $5.00 distributable cash flow (DCF) per share. This is the key metric to gauge its dividend safety. Based on the estimate, its 2021 payout ratio will be about 69% this year.

Management also provided an initial 2022 DCF-per-share guidance of $5.20 to $5.50, suggesting potential growth of about 10%. As well, it extended its 5-7% average annual DCF-per-share growth estimate through 2024. There was no surprise, as Enbridge stock raised its dividend by 3% for Q1 2022. This rate of increase is similar to that of last year.

The large North American energy infrastructure company is leaving financial flexibility for the potential to buy back shares, reduce leverage, and grow the business. By increasing its dividend at a lower rate than its DCF growth, it'll also reduce its payout ratio, making its dividend safer.

Across 22 analysts, Enbridge stock is undervalued by over 13% and has the potential to appreciate approximately 16% over the next 12 months.

The latest dividend increase marks the 27th consecutive year of dividend growth for the Steady Eddie Canadian Dividend Aristocrat. The new payout of $0.86 per quarter (or $3.44 annually) equates to a yield of almost 7.2%. This juicy yield is perfect for tax-free income as a TFSA stock.

This dividend stock is great for tax-free income

The big Canadian banks and insurance companies like **Manulife** (TSX:MFC)(NYSE:MFC) froze their dividends during the pandemic, because the regulator (Office of the Superintendent of Financial Institutions) was being cautious about the economy and asked all federally regulated financial institutions to do so.

As soon as the regulator allowed for dividend increases, Manulife stock rewarded patient shareholders with a big dividend increase of 18% last month. Now, Manulife yields 5.5%! The life and health insurer's core earnings of $4.8 billion year to date were easily sufficient to pay for its dividends in the period with a payout ratio of 37%. So, the dividend stock will have no problem keeping its high yield safe.

Across nine analysts, Manulife stock is undervalued by 20% and has the potential to appreciate about 25% based on the consensus 12-month price target of $30 per share.

The Foolish investor takeaway

Looking at the 12-month analyst consensus price target is not to say investors should try to sell their stocks within the period. Instead, it's a check to ensure we're paying a good price for our stocks. Buying dividend stocks when they're undervalued allows us to earn more tax-free income in our TFSA.

If you're at the $6,000/year tax-free income mark already, congratulations! If not, you just need to continue saving and investing for growing income in solid dividend stocks like Enbridge and Manulife.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

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