TFSA Retirees: How to Earn $5,800 in Tax-Free Dividend Income in 2022

Description

The TFSA or Tax-Free Savings Account is a program that began in 2009. It's a registered account that aims to encourage savings for individuals over the age of 18. While the contributions towards a TFSA are not tax deductible, any income earned in the registered account is exempt from Canada Revenue Agency taxes.

The TFSA contribution limit for 2022 is $6,000, bringing the cumulative contribution room to $81,500 at the start of next year. As any income earned in your TFSA in the form of capital gains, interest or even dividends is exempt from Canada Revenue Agency taxes, it makes sense to hold blue-chip dividend-paying stocks in this registered account.

Interest rates are near record lows making fixed-income instruments a poor option given the recent uptick in inflation rates. Alternatively, there are several dividend-paying companies trading on the TSX with attractive yields. These companies allow investors to derive a stable stream of recurring income. Additionally, a quality dividend-paying stock will also increase investor wealth via long-term capital gains, over time.

Keeping these factors in mind let's see which dividend-paying company should be part of your TFSA portfolio right now.

Enbridge offers investors a forward yield of 7.1%

One of the largest midstream companies in North America, **Enbridge** (TSX:ENB)(NYSE:ENB) is valued at a market cap of $98 billion and an enterprise value of $175 billion. Enbridge has a wide portfolio of cash-generating assets as it also generates 14% of adjusted EBITDA from the natural gas distribution vertical and 3% from contract-based renewable energy assets.

Earlier this month, Enbridge announced a 3% increase in dividends marking the 27th consecutive annual increase of these payouts. Enbridge will pay dividends of $3.44 per share in 2022 which is 43% higher than the payout of $2.413 per share it distributed in 2017. In the last four years, the company's dividends have risen at an annual rate of 7.3% and right now the forward yield stands at a tasty 7.1%.

Enbridge was one of the few energy companies that maintained dividend payments amid COVID-19. Going forward, the energy heavyweight aims to keep its payout ratio between 60% and 70% of total distributable cash flow (DCF). The DCF is a metric that does not account for non-cash factors which are generally a part of overall earnings.

ENB forecasts DCF per share between $5.20 and $5.50 in 2022, indicating a payout ratio of 64%. The company also expects DCF to grow between 5% and 7% through 2024 which suggests further dividend increases will be in the cards.

ENB stock is also attractively valued and is trading at just nine times its 2022 cash flow estimates. Further, Enbridge has authorized $1.5 billion in share repurchases which will improve its cash flow per share in the future.

Enbridge confirmed it will complete $4 billion of expansion projects next year that is part of its $9 billion backlog, which in turn will allow it to increase cash flows over time.

The Foolish takeaway

In case you invest $81,500 in ENB stock, you can generate close to $5,800 in annual dividend payments. But it does not make financial sense to allocate such a large portion of your capital to a single stock. Instead, this article should be used as a starting point in your investment journey and you can identify similar companies with strong fundamentals and predictable cash flow that have the ability to increase dividend payouts consistently.

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