



TFSA Retirees: How to Earn \$4,300 Each Year in Tax-Free Dividends

Description

The Tax-Free Savings Account, or TFSA, is a popular registered account among Canadians. This account can hold a variety of qualified investments, such as bonds, stocks, mutual funds, and exchange-traded funds.

Any withdrawal from your TFSA in the form of interests, dividends, or capital gains is exempt from Canada Revenue Agency taxes. So, it makes sense to buy and hold quality [dividend-paying stocks](#) in your TFSA to benefit from a steady stream of dividend income and long-term capital gains.

The TFSA was introduced back in 2009, and the cumulative contribution room for the account has increased to \$81,500 this year. Let's look at a few dividend stocks Canadians can buy right now.

Enbridge

One of the largest energy companies in the world, **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) offers investors a forward yield of more than 6%. A majority of Enbridge's cash flows are supported by long-term contracts, which have allowed it to increase dividends for 27 consecutive years.

Enbridge owns and operates the largest crude oil transportation system in the world. It moves 30% of all oil produced in North America and is still insulated from volatility in commodity prices. The [company also operates](#) natural gas transmission, distribution, and storage assets and is focused on expanding its renewable energy business.

Enbridge continues to widen its base of cash-generating assets, which, in turn, should support dividend increases going further. In its recent earnings call, Enbridge stated that its distributable cash flows should increase between 5% and 7% through 2024.

Capital Power

A company that owns and acquires renewable and thermal power-generation facilities, **Capital Power** ([TSX:CPX](#))

) offers investors a dividend yield of 5.2%. It generated electricity from wind, coal, solar, natural gas, and waste heat. Capital Power owns 6,600 megawatts of power-generation capacity across 26 facilities. After adjusting for dividends, Capital Power stock has returned 127% to investors in the last five years.

Capital Power is focused on acquiring mid-life contracted natural gas assets with a high probability of re-contracting. In Q4 of 2021, it executed a six-year tolling agreement extension for Arlington Valley, which is Capital Power's second natural gas facility for which it executed a long-term extension post-acquisition.

In Q4 of 2021, Capital Power's operating cash flows stood at \$185 million, while adjusted funds from operations were \$149 million. Given the company's outstanding share count and dividend payouts, Capital Power should distribute \$63.5 million in dividends to shareholders in Q1, allowing it to maintain a sustainable payout ratio between 45% and 55%.

Bank of Nova Scotia

The final stock on my list is **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), which offers a forward yield of 4.7%. One of the largest banks in Canada, BNS stock is valued at a forward price-to-earnings multiple of 10, which is really attractive.

While the possibility of multiple interest rate hikes is bound to lower revenue from loans, it should positively impact profit margins for BNS and peers. Analysts tracking BNS stock [expect earnings to rise](#) at an annual rate of 5.6% in the next five years.

Further, BNS is also trading at a discount of 14% to consensus price target estimates. After accounting for its dividend yield, total returns may be closer to 19% in the next year.

The Foolish takeaway

If you allocate \$81,500 equally to these three stocks, investors can generate \$4,300 in dividend payouts each year. You need to identify similar companies with attractive yields, reasonable valuations, and strong fundamentals to create a robust portfolio of income-generating stocks for your TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CPX (Capital Power Corporation)
5. TSX:ENB (Enbridge Inc.)

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