



## TFSA Investors: How to Generate \$4,650 Annually in Tax-Free Dividend Income

### Description

Central banks around the world are combating the current inflation situation in different ways. While the U.S. Federal Reserve has said it will continue to raise interest rates, despite the possibility of a recession, the Bank of Canada may not be as aggressive.

While all three major U.S. indices have fallen at least 15% in 2022, the TSX has fallen just over 11% in the same period. But there is a chance for rising interest rates in Canada to drag stocks lower in the second half of 2022.

Economic cycles are inevitable and may completely disrupt your financials in the near term. But investors need to zoom out whenever they are in doubt, as equities have created massive wealth for long-term investors.

Further, the depressed valuations of several stocks provide you with an opportunity to buy companies at a discount. As stock prices and dividend yields have an inverse relationship, the selloff surrounding the stock markets has increased the forward yields of several companies in 2022, making them attractive to income and value investors.

When markets are in turmoil, quality dividend-paying stocks allow investors to create a stable and predictable income stream. Let's take a look at one such TSX stock that can be part of your TFSA portfolio in 2022.

### What is a TFSA?

A [Tax-Free Savings Account](#), or TFSA, is a popular registered account among Canadians. Launched in 2009, the TFSA allows you to hold several investments such as bonds, stocks, ETFs, and mutual funds.

Any withdrawals from the TFSA in the form of interest payments, capital gains, or even dividends are exempt from Canada Revenue Agency taxes.

The cumulative contribution room for the TFSA in 2022 stands at \$81,500. So, if you invest \$81,500 across a portfolio of quality dividend-paying stocks, you can generate a predictable stream of tax-free dividend income each year.

## TransAlta Renewables is a blue-chip dividend stock

**TransAlta Renewables** ([TSX:RNW](#)), develops, owns, and operates renewable power-generation facilities. The company has economic interests in 2,996 MW of gross installed capacity.

Oil prices might be over US\$100 right now but there is no denying that the energy industry is moving away from fossil fuels to renewables. The Russian invasion of Ukraine made countries around the world realize that depending on one country for a large part of your energy needs is not the smartest plan.

Renewable companies with strong fundamentals are the starting line of long-term growth. While supply chain issues might cause headwinds in 2022, growth will accelerate when the situation returns to normal.

TransAlta stock has fallen a little over 12% in 2022, which is almost in line with the TSX. Right now, the stock offers investors a forward yield of 5.7%, which is quite tasty, as TransAlta has been paying regular dividends since 2014.

In Q1 of 2022, TransAlta reported free cash flows of \$108 million — an increase of 9% year over year. Comparatively, its adjusted EBITDA rose by 13% to \$139 million.

In 2022, TransAlta estimates an adjusted EBITDA between \$485 million and \$525 million in 2022, an increase of almost 10% at the midpoint compared to its EBITDA of \$463 million in 2021. It is likely to end 2022 with cash available for distribution in the range of \$245 million and \$285 million compared to \$275 million in 2021. These are very good numbers in a tumultuous financial environment.

RNW stock is currently trading at \$16.5. while analysts expect shares to increase by 11% in the next year. After accounting for its dividend yield total returns will be closer to 17%.

## The Foolish takeaway

If you allocate \$81,500 towards RNW stock, you can generate \$4,650 in annual dividends. But it does not make sense to have such a large exposure to a single company or even a single sector. You need to identify similar fundamentally companies across sectors and build a portfolio of robust dividend stocks.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:RNW (TransAlta Renewables)

#### **PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

#### **PP NOTIFY USER**

1. araghunath
2. kduncombe

#### **Category**

1. Dividend Stocks
2. Investing

#### **Date**

2025/08/29

#### **Date Created**

2022/07/05

#### **Author**

araghunath

default watermark

default watermark