2 Dividend Stocks for Tax-Free TFSA Returns!

Description

Some financial advisors view rising inflation as a stealthy threat to investors. However, if you're aware that the threat could reduce your purchasing power, the time to act is now. The Bank of Canada is working hard to curb inflation, but Governor Tiff Macklem warns that the rate could remain painfully high, probably around 7%, for the rest of 2022.

Canadians with appetites to invest, notwithstanding the uncertainties, can utilize their Tax-Free Savings Accounts (TFSAs) to the hilt. The unique investment account should do wonders, especially in times of rising prices, because money growth or return from a TFSA is tax free.

Dividend stocks are eligible investments in a TFSA and deliver higher return on investment compared with other instruments. If you can maximize your contributions limits or available contribution room, purchase shares of established dividend payers to hold in your TFSA.

Bank of Nova Scotia (TSX:BMO)(NYSE:BMO) and **Freehold Royalties** (TSX:FRU) are not only reliable income providers but are also generous to TFSA investors. BNS pays the highest dividend (5.44%) among the big banks, while the dividend offer of the oil & gas royalty company is 7.35%.

Also, the payouts of BNS and Freehold are quarterly and monthly, respectively. Thus, a $3,000 investment in each will produce $40.80 every quarter and $18.38 per month. Don't worry about withdrawing your tax-free earnings because you don't pay taxes on TFSA withdrawals, too. If you won't need the money anytime soon, reinvest the dividends for faster compounding of your TFSA balance.

Time tested

Canada's banking sector is a bedrock of stability, although the giant lenders aren't immune to the present storm. Nevertheless, financial stocks have advanced 3.23% in the last five trading days. BNS still trades at a discount (-13.29% year to date), so the current share price of $75.74 is a good entry point.

The country's third-largest bank has a dividend track record of 190 years that is unlikely to be broken regardless of the economic environment. Phil Thomas, the chief risk officer of BNS said the loan portfolio remains healthy, despite the macroeconomic headwinds.

Long-term capital growth

Dividend lovers should have no reservations taking positions in Freehold Royalties. The energy stock offers lower-risk returns and long-term capital growth to would-be investors. This $2.02 billion oil & gas royalty company has ownership in vast land holdings North America and collect revenues from operators of the royalty lands.

At $13.44 per share, current investors enjoy an 18.99% year-to-date gain on top of the generous dividend yield. Management has increased dividends for six consecutive quarters. Moreover, the evaluate of its dividend policy is ongoing in view of the favourable pricing environment.

Tool at your disposal

Scotia Economics predicts inflation to slowly decline to 3.6% in 2023 after hitting its peak in late summer 2022. D'Arcy McDonald, senior vice president of Retail Payments and Unsecured Lending at BNS, said, "With so many moving pieces, Canadians need to use every tool at their disposal to keep them on track to achieve their financial goals."

The TFSA and Registered Retirement Savings Plan (RRSP) are the tools available to Canadians. Those who have maximized their RRSP limits should bring their spare cash to a TFSA to boost savings or passive income further.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:FRU (Freehold Royalties Ltd.)

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