



## TFSA Passive Income: Use Dividend Stocks (With 0% Tax!)

### Description

Rising interest rates triggered by high inflation haven't fully impacted us yet but the heavy toll is coming soon. **TD's** chief economist, Beata Caranci, said, "You need the higher rates and the inflation to cause people to slow down their spending patterns."

A recent survey by Angus Reid Institute confirms that people are wary of rising prices and its impact on purchasing power. The majority of poll respondents are cutting back on spending and delaying major purchases. Moreover, 19% are deferring, trimming contributions, or not utilizing their [tax-advantaged](#) or tax-sheltered investment accounts due to financial constraints.

### Inflation-fighting power

Contributing to the Tax-Free Savings Account (TFSA) is especially crucial in the current environment. Active TFSA users possess inflation-fighting power because interest, income, and capital gains generated inside the account are 100% tax-free. If finances allow, consider maximizing your 2022 TFSA contribution limit or using your available contribution room to purchase dividend stocks.

**Freehold Royalties Ltd.** ([TSX:FRU](#)) and **Pizza Pizza** ([TSX:PZA](#)) are two high-yield stocks trading at less than \$20 per share. More importantly, you'll pay \$0 tax on the average 6.6% dividend you'll earn from these investments!

### High ROI

The return on investment (ROI) from Freehold Royalties so far in 2022 and dating back about a year is quite high. At \$14.90 per share, the trailing one-year price return is 64.53%, while the year-to-date gain is 32.69%. The overall return is higher if you include the ultra-high dividend yield of 7.25%.

Freehold owns vast royalty lands (6.2 million gross acres) in North America. This asset base or property portfolio is comprised of premier basins in Western Canada and the United States. The \$2.24 billion oil & gas royalty company benefitted from the robust activities of drillers or operators (private and

public) across its royalty lands in Q2 2022.

In the three months ended June 30, 2022, royalty revenue and net income increased 139% and 433% versus Q2 2021. Freehold's cash flow from operations climbed 126% year-over-year to \$75.44 million. In the first half of 2022, total dividend payments reached \$63.26 million, representing a 204% increase from the same period in 2021.

Management describes 2022 as an exciting year for Freehold. The portfolio expansion in the U.S. that occurred two years ago is bearing fruits. Because of the material growth in its asset base and drilling inventory, the [energy stock](#) has delivered three consecutive quarters of record funds from operations.

## Better days ahead

Pizza Pizza is slowly but surely recovering from the pandemic and better days are on the horizon. The \$435 million quick-service restaurant franchisor owns the rights and trademarks to Pizza Pizza and Pizza 73 brands (727 restaurants combined). In Q2 2022, system sales, royalty income, and adjusted earnings from operations increased 21%, 19%, and 20% versus Q2 2021.

Its CEO, Paul Goddard, said, "We experienced strong growth in all sales channels in the second quarter, including delivery, pickup and walk-in, and sales exceeded pre-pandemic levels, especially in our largest markets." Because of the strong business growth, management increased the dividends by 3.8%. The royalty stock trades at \$13.52 per share and pays a 5.95% dividend.

## Monthly dividends

Freehold and Pizza Pizza pay monthly dividends. Assuming you own \$3,000 shares of each in a TFSA, you'll have \$33 in tax-free passive income every month.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:FRU (Freehold Royalties Ltd.)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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