



TFSA Investors: How to Earn \$250 a Month in Tax-Free Dividends

Description

One of the most attractive aspects of dividend investing is that it allows you to substitute or boost your income. From millennials to retirees, a solid dividend portfolio can benefit any lifestyle.

In Canada, we are lucky to have one of the best investment vehicles in the world. The Tax-Free Savings Account (TFSA) enables Canadians to grow their investments tax-free. Not only can they grow their investments, but any income received from investments held within the account — dividends, interest payments, etc. — are also tax-free.

It is one of the most underutilized ways to build wealth. Canadians who were at least 18 years of age in 2009 when the TFSA was first introduced now have a cumulative maximum of \$63,500 in TFSA contribution room.

To build a portfolio that will generate \$250 a month in tax-free dividends, investors would need \$3,000 in annual income. As such, a \$60,000 portfolio yielding 5% would do the trick.

Now that we have a starting point, it is time to shortlist our investments. Not all stocks yielding 5% are created equal, and one of the best places to start is the [Canadian Dividend Aristocrat](#) list. These are companies that have a history of raising dividends for at least five or more consecutive years.

Why Aristocrats? They have shown a commitment to rewarding investors through a growing and sustainable dividend. From here, we are interested in looking at companies from a variety of industries and whose dividends are considered safe.

Inter Pipeline (TSX:IPL) is one company that checks off all the boxes. In an environment of low interest rates, companies with high capital expenditures, such as midstream companies, perform quite well. It is the perfect time to take on big projects — such as Inter's Heartland petrochemical plant.

The first of its kind in Canada, Heartland is expected to enter operation in late 2021. It will contribute significantly to EBITDA to the tune of \$400-\$450 million annually, which will enable it to build on its 10-year dividend-growth streak. Inter Pipeline currently yields a hefty 7.06% and is well covered by cash flows (61%).

You can't talk about building a portfolio of dividend-paying stocks without talking about Canada's big banks. They are a staple among Canadian portfolios, and it's not hard to see why. They own some of the longest uninterrupted dividend streaks in Canada. Although they all lost their dividend-growth streaks during the financial crisis, not a single one cut the dividend.

The best yield and growth combination belongs to **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). The bank has an eight-year dividend-growth streak and [just raised dividends](#) by another 3.4% earlier this week. It currently yields 5.08% and has not missed a payment since it first started paying dividends back in 1892.

The last stock to consider is **Exchange Income** ([TSX:EIF](#)). Exchange Income is an aerospace and aviation company that offers airline, charter, and emergency medical services across the country.

This monthly dividend payer also offers a dividend-reinvestment plan (DRIP), which gives shareholders the opportunity to reinvest shares at a 3% discount. It currently yield's 5.88% and has an eight-year dividend-growth streak in which it has averaged mid-single-digit growth.

Foolish takeaway

A \$120,000 investment in any combination of these companies would generate at least \$250 a month. In fact, if you were to split the portfolio equally among all three, then you would be generating approximately \$300 a month in tax-free dividends. Building wealth doesn't have to be hard.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:EIF (Exchange Income Corporation)

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Date

2025/08/26

Date Created

2019/08/29

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