How to Earn $1,000 per Month in Passive Income in 3 Easy Steps

Description

Earning a passive income is simple. In three easy steps, you could be generating $1,000 per month in extra income. The main ingredients you'll need are planning and time. But once you set things in motion, there's virtually nothing you'll need to do to achieve your passive income goals.

If you want to start earning an additional $1,000 every month, here's where to start.

Prevent taxes

The first thing you want to do is maximize the value of your investments. The easiest way to do this is to avoid paying taxes. But instead of illegally misreporting your taxable income, it's best to stick with government approved methods like opening a TFSA.

A TFSA, also known as a Tax-Free Savings Account, is an investment account that gives you permanent protection from dividend and capital gains taxes.

Once you contribute money to the account, you'll never have to pay taxes on it again. That's a huge advantage and one that should never be overlooked. For example, if your $1,000 per month income stream isn't protected from taxes, you may end up with just $600 or $700 each month, which leaves you thousands of dollars on the table every year.

The Canada Revenue Agency suggests that citizens simply contact their financial institution to establish a TFSA account. It's as simple as that. All you need to do now is fill that account with savings.

Set up to save

With your tax-advantaged account in place, it's time to deposit some cash to invest. After all, you can't buy promising stocks without cash first.

How much should you deposit? Surprisingly, it's not important how *much* you initially contribute, but how you *structure* those contributions.

For example, a $100 recurring monthly contribution is significantly better than a one-time investment of $1,000, as it can be painful to manually transfer money from your savings account on a frequent basis.

Instead, remove the pain and hassle by setting up recurring transactions, which most financial institutions allow.

Whether you start at$20 per month or $2,000 per month, the critical thing is to make these contributions *automatic*. That way, you're significantly more likely to keep investing over time rather than trusting yourself on a regular basis to do the transactions manually.

You can always up the contributions amount later (and you should!), but for now, simply choose an amount and make it recurring.

Pick dividend stocks

You've got your tax-advantaged account and recurring deposits. Now all you need to do is invest that regular stream of cash into reliable dividend stocks capable of generating a passive income.

Stocks like **Hydro One Ltd** (TSX:H), which pays a 4% dividend, and **Inter Pipeline Ltd** (TSX:IPL), which pays a 7.7% dividend, are perfect places to start.

If you owned these two stocks, your portfolio would be generating tax-free income of around 5.9% every year. The dollar amount that you'll receive depends on the dollar amount you have invested.

If you want $1,000 per month in income and can generate 5.9% passive returns, you'll need a nest egg of roughly $200,000. That may seem like a lot, but recurring contributions make the path to getting there simple.

For example, if you invest $500 per month and earn the long-term stock market average of 10% per year, you'll have $200,000 in less than 15 years.

That's a long time to wait, but in return, you'll enjoy a tax-free $1,000 per month for the rest of your life. You can get there even faster, but you'll need to load up with quality stocks that can generate consistent wealth through age 50 and beyond.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
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Date
2025/07/04
Date Created
2019/11/01
Author
rvanzo