
Ring in the New Year With a Tax-Free Passive Income Stream!

## Description

What better way to ring in the New Year than with a gift that keeps on giving?

Over the holiday season, we typically spend more money than we had planned. Around New Year's, we make resolutions to cut back. Then in the next year, the cycle repeats itself.

One great way to break the cycle is to give yourself the gift of tax-free income.



Thanks to the Tax-Free Savings Account (TFSA), it's possible to buy investments without worrying about taxes. Similar to RRSPs, TFSAs give you tax-free growth. Unlike RRSPs, however, they also let you withdraw tax-free.

This makes the TFSA the perfect account to establish a tax-free income stream — one that can help you pay for the holidays next year without breaking the bank.

## Investors can now contribute up to $69,500 to a TFSA

TFSA contribution room is cumulative, meaning that every year you get an additional amount of contribution space plus whatever you have left from past years.

In 2020, investors who were at least 18 in 2009 will have $69,500 worth of contribution space. At a 4% average yield, a portfolio of that size will produce $2,700 a year in dividend income–more than enough to cover the average Canadian family's Christmas expenses.

## A solid TFSA income pick

If you're looking to establish your own TFSA income stream, a greater beginner pick would be the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). As a diversified, low-fee index ETF, it gives you built-in diversification and spares you having to painstakingly research individual stocks.

Although XIU's dividend yield (2.8%) isn't quite enough to get the $2,700 a year in income mentioned above, it can produce a substantial amount in its own right (about $1,950 a year) with $69,500 invested.

More important, as an index fund, it's not actively managed, which means that you're guaranteed to replicate the performance of the target benchmark (the **TSX 60**) and will pay low fees.

Why recommend XIU as opposed to another Canadian index fund?

Personally, I favour XIU to XIC–the obvious runner-up–for a few reasons.

With its concentration on large caps, XIU has fewer high-risk components than does XIC.

As a more popular fund, it's more liquid.

Finally, XIU has enjoyed slightly better performance than XIC historically. There's no guarantee that that will remain the case, but it holds over a pretty long time frame.

If you wanted to diversify your TFSA ETF portfolio a little, I'd consider adding a U.S. fund like the **Vanguard S&P 500 Index Fund**, but I'm personally comfortable keeping my entire Canadian ETF portfolio in XIU.

## Foolish takeaway



If the holiday season is about spending, then the New Year is about saving. After the gift giving bonanza of Christmas, New Year's can be a great time to cut back on spending and get your finances in order.

One great way to do that is to hold income-producing investments in a TFSA and keep receiving tax-free gifts every quarter the whole year round.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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