



How to Make \$400 a Month Tax Free

Description

Passive income is one of the greatest gifts of investing — and a huge tool to allow investors to compound their income by reinvesting their dividends.

While any amount of passive income coming in per month is nice, getting to \$400 of tax-free income is a desirable level — one that's entirely possible if you're using your Tax-Free Savings Account (TFSA).

As of the beginning of 2020, the total contribution room for investors who have been eligible since its inception in 2009 is \$69,500.

If you've maxed out your [TFSA](#), in order to earn \$400 a month in passive income, your total portfolio needs a yield of roughly 6.9%.

In order to have your portfolio yielding 6.9%, you'll need to buy some of the top dividend paying stocks on the **TSX**, such as **Pizza Pizza Royalty Corp** ([TSX:PZA](#)) and **Enbridge Inc** ([TSX:ENB](#))([NYSE:ENB](#)).

Pizza Pizza

Pizza Pizza Royalty is a restaurant fund that receives royalty payments as a percentage of its sales from the restaurants in its royalty pool. The royalty pool consists of more than 750 of its Pizza Pizza and Pizza 73 restaurants across Canada.

The fund has almost no costs, just administrative costs to keep it running, which is why its five-year average operating margin is north of 98%.

The fund does carry some debt however, so servicing that debt is its biggest cost, yet it still earns a net income margin of more than 75% consistently.

Because of the fund's make-up and near-guaranteed profitability, you don't have to worry about the profitability of the fund, only the level of sales it's bringing in, as they're directly proportional to its dividend.

At current prices, Pizza Pizza's dividend yields more than 8.5%, and because its revenue and income is so stable, it makes the dividend that much more attractive. Plus, the stock as a whole is trading at an appealing valuation of less than 12 times earnings.

Stocks like Pizza Pizza offer investors a major opportunity to secure a high yield that's also stable and play a major role in setting up your passive-income portfolio for the long term.

Enbridge

Enbridge is a major energy infrastructure company that's at the heart of the North American economy. The company transports nearly a quarter of the oil and natural gas in North America, highlighting the important role it plays in bringing energy to new markets.

As its business is so vital, it naturally has a competitive advantage that makes Enbridge one of the best long-term stocks to own.

In addition, much of its cash flow is predictable, so it can keep its dividend as sustainable as possible while also offering investors an accurate outlook on future dividend increases.

At the moment, Enbridge's stock has a dividend yield of 6.2%, which is pretty significant given its sustainability; as well, Enbridge has already said it expects to grow the dividend by 5%-7% annually over the next few years.

Although the stock isn't as cheap as Pizza Pizza, a massive company like Enbridge warrants a premium, and at a price-to-earnings ratio of roughly 18 times, the valuation is still fair.

If you bought today at a 6.2% yield and held for two years and Enbridge increased the dividend 5% each year, in two years' time, the dividend would yield more than 6.8% on your initial investment today, thereby demonstrating the significant power of dividend growth.

Bottom line

The key to earning a lot of passive income monthly is finding stocks similar to these two top companies and building up your portfolio with them, to not only ensure an attractive amount of [passive income](#), but also the sustainability to have it last.

If you invested equal amounts in of these companies, the average yield would be more than 7.3%, which is more than enough to earn passive income at a \$400 a month rate.

While getting to \$400 a month is desirable, you should never sacrifice quality for yield.

You should always pick the best companies with the most reliable dividends first, and even if your portfolio won't quite yield \$400 a month yet, the best companies will inevitably be growing their

dividends, so your portfolio will soon exceed that \$400 a month and be on its way to \$500.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

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