Passive-Income Investors: Earn $300/Month the CRA Can't Touch

Description

Have you ever thought of making your money work for you rather than working for money? There are many permutations and combinations you can use to make money out of money. But finding the best equation is what sets investors apart. Here is one combination that can convert your $50,000 into $300/month in passive income.

How to earn $300/month in passive income

To earn a regular passive income, you need to invest in dividend stocks. While the COVID-19 pandemic led to a stock market crash, it created a once-in-a-decade opportunity for passive-income investors to lock in high dividend yields for a lifetime. But the time is running out. The Dividend Aristocrats have started walking on the recovery path. Invest now to get the benefit of high dividend yield and capital appreciation from the recovery to pre-pandemic levels.

If you have $50,000 saved in any fixed income or other securities and it's fetching you less than 5% in annual returns, encash that money. Divide this money among three dividend stocks: $20,000 in **Enbridge** (TSX:ENB)(NYSE:ENB) and $15,000 each in **RioCan REIT** (TSX:REI.UN) and **SmartCentres REIT** (TSX:SRU.UN). The three stocks have dividend yields of 7.5-7.8%, and their stock prices are rising gradually as the economy recovers.

Enbridge

Enbridge is North America's largest pipeline operator. It pays dividends from the cash it receives for allowing utilities to transmit oil and natural gas. The pipeline operator doesn't have exposure to the oil price, and more than 98% of its revenue comes from long-term supply contracts that ensure its pipelines are in use. The pandemic suddenly pulled down oil demand that resulted in a lower volume of oil transmitting through its pipelines. Hence the stock dropped 35% during the pandemic, and its dividend yield rose to more than 8.5%.

Enbridge maintained its dividend per share from its cash flows from the natural gas transmission. It will continue to develop new pipelines and generate more sources of cash flows. The higher the cash flow, the higher the dividend. Its efficiency in completing pipeline projects in a stipulated budget has helped it increase its dividends at a CAGR of 11% in the last 25 years. If it increases its dividend per share at a CAGR of 8%, it will fetch you incremental monthly dividend income. A $20,000 investment now will convert into a passive income of $126 in January 2021 and $270 by January 2030.

As the economy recovers and oil demand rises, Enbridge stock will rise and reach pre-pandemic levels, representing 30% upside. Your $20,000 can grow to $26,000 in two years.

REITs

While Enbridge can give you incremental dividend income, RioCan and SmartCentres can give you stable dividend income. The two are Canada's largest retail REITs, with stores in prime locations. They have 20-year histories of paying dividends regularly. They pay dividends from the rental money they receive from their retail tenants.

During the pandemic-driven lockdown, non-essential retail stores were closed. These retailers incurred huge losses and permanently closed some stores. Both RioCan and SmartCentres received lower rent. Their occupancy rate and fair value of property decreased. Hence, their stocks fell 46% and 33%, respectively.

However, they started recovering in the third quarter, as many retailers paid deferred rent, and they signed new agreements with higher rents. As the occupancy rate improves, the stock of RioCan and SmartCentres will return to pre-pandemic levels, representing upside of 50% and 30%, respectively. A $30,000 investment in these two stocks will fetch you a monthly passive income of $195. And your $30,000 will grow to $42,000 in two years.

How to protect your passive income from CRA's tax claws

A $50,000 investment in the above three stocks will earn you $320/month in passive income in 2021 and $470/month by 2030. As these stocks recover from the crisis, they can convert $50,000 to $68,000 by 2022. You can save all this investment income from the Canada Revenue Agency's (CRA) claws by investing through the Tax-Free Savings Account (TFSA).

If you have never invested in TFSA before, the CRA allows you to contribute up to $69,500. It will tax your contribution but exempt your investment income from taxes.

CATEGORY

1. Coronavirus
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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