



TFSA Passive Income: How to Earn an Extra \$377.50 Tax-Free Every Month!

Description

The 2020 pandemic showed us the importance of having passive income to cover unexpected events. Fortunately, the Tax-Free Savings Account (TFSA) offers investors a unique way to generate reliable extra income that the CRA can't touch.

TFSA 101: Tax-free passive income

The TFSA limit will increase by \$6,000 in 2021, bringing the total maximum TFSA contribution space to \$75,500. All interest, dividends, and capital gains earned inside the TFSA remains beyond the reach of the Canada Revenue Agency.

Income investors can pull the earnings out of the TFSA at any time and put the full value straight into their pockets. This is particularly helpful for retirees who want to avoid triggering the [OAS clawback](#).

Younger investors can use the passive income stream to cover monthly living expenses. If the cash isn't required immediately, the earnings can be reinvested to build the portfolio.

Any money removed from the TFSA opens up new TFSA contribution space in the following calendar year, which means Canadians can replenish the tax-free income fund when extra cash becomes available.

Best TFSA investments for passive income

While GICs are safe, low interest rates mean the best offer by a big bank these days is about 1%. That's not going to cut it for a passive income portfolio, however. Interest rates are expected to remain low for years, so income investors might want to consider [top dividend stocks](#) to generate steady earnings on savings.

Stocks come with risk. However, the best companies tend to bounce back quickly when there is a market downturn. A stock crash actually provides investors an opportunity to buy great companies at

discounted prices. We saw this in 2020, when many of Canada's best dividend stocks sold off, driving dividend yields to fantastic levels.

The rebound in the market sent many stocks back to their pre-pandemic levels, but some top dividend stocks still appear cheap for a TFSA income fund.

Look for industry leaders with long track records of revenue gains and growing payouts. Companies that provide essential services and have wide competitive moats should be on the radar in the current environment.

Is Enbridge stock a good buy for passive income?

Enbridge just [increased](#) its dividend by 3% — the 26th consecutive annual hike to the payout.

Enbridge continues to invest in new capital projects and expects distributable cash flow to rise by 5-7% per year. That means dividend increases should continue in this range. Investors who buy the stock now can pick up a 7.9% dividend yield.

Enbridge appears oversold near the current price of \$42 per share, giving investors a chance to secure a great yield and potentially pocket significant capital gains when the stock recovers. The 12-month high on Enbridge stock is \$57.

Should Fortis stock be on your TFSA buy list?

Fortis is a utility company with businesses located in Canada, the United States, and the Caribbean. The company's assets include power generation facilities, electricity transmission infrastructure, and natural gas distribution networks.

Revenue primarily comes from regulated assets, which means cash flow tends to be predictable and reliable. Fortis grows through acquisitions and internal development projects. The current \$19.6 billion capital program will boost the rate base significantly over the next five years.

As a result, Fortis intends to raise the dividend by an average rate of 6% per year through 2025. The board hiked the payout in each of the past 47 years, so the guidance should be rock solid.

Fortis stock normally holds up well when the broader market hits a rough patch. This provides TFSA investors with added stability in portfolios geared to passive income. At the time of writing, investors can buy Fortis at a reasonable price and pick up a yield of 3.8%.

The bottom line

Enbridge and Fortis are just two top dividend stocks in the **TSX Index** that provide reliable and growing dividends for passive income in a TFSA fund. An equal investment in the two stocks would provide an average yield of 5.85%.

A balanced portfolio of top dividend stocks could easily yield 6% today, which would generate \$4,530 in tax-free annual passive income on a \$75,500 TFSA portfolio. That's \$377.50 per month!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/25

Date Created

2020/12/18

Author

aswalker

default watermark

default watermark