CRA TFSA Cash: How to Earn $150/Month in Passive Income

Description

The Tax-Free Savings Account (TFSA) has quickly become one of the most important tools in a Canadian investor's arsenal. The tax-sheltered account allows you to put aside investments each year in the account to take tax-free returns from your assets. As long as you follow the rules and make the right investments, your TFSA can be the best investment vehicle you can rely on.

The Canada Revenue Agency (CRA) has added more contribution room to the TFSA since its inception in 2009. With the latest update to the TFSA contribution room, you can now invest an additional $6,000 to your TFSA. The 2021 update brings the cumulative contribution room in the account since its inception at a mammoth $75,500.

If you are able to max out your contribution room, you can hold on to your TFSA investments without worrying about income tax on any earnings in the account.

Understand your TFSA limit

All assets you store within your TFSA can provide you with tax-free earnings. However, you need to ensure that you remain within the contribution limit. Many active TFSA users who are enjoying the returns from their investments in TFSAs get too excited and contribute more than the limit.

Before you make any contributions to your TFSA, it is important to keep track of how much contribution room you have. You can check online through the CRA MyAccount or call the agency to ask them how much contribution room you have. There is a limit that you cannot cross.

Suppose you invest over the contribution limit. If you exceed the contribution limit, the CRA can charge you 1% tax penalties on the extra amount per month until you bring the contribution back down to its limit. As long as you are careful, you can bring in significant passive income for years without incurring taxes.

Energy rush

Enbridge (TSX:ENB)(NYSE:ENB) is an excellent stock to consider when you are creating a dividend income portfolio in your TFSA. The energy infrastructure company has had a strong start in 2021 due to the increased oil demand. The upswing in economic activities have also led to the stock's valuation surging.

Enbridge runs a highly regulated business. 98% of its adjusted EBITDA comes through long-term contracts, providing it with a relatively stable cash flow. The company also recently acquired $16 billion for its secured growth capital program.

The company's management has reaffirmed its long-term guidance, projecting a 5-7% annualized growth in its distributable cash flow per share. The company's growth prospects and its dividends seem secure. It has been paying its shareholders their dividends for the last 66 years and raised its dividends at a 10% CAGR in the last 26 years.

Enbridge is trading for $44.08 per share at writing and pays its shareholders at a juicy 7.58% dividend yield. Investing in the stock right now could entitle you to earn significant returns through its capital gains and reliable dividend payouts.

Foolish takeaway

If you are an income-seeking investor, you can use your TFSA to generate substantial passive income that you can use to supplement your account balance for decades. Suppose that you have $25,000 of contribution room in your TFSA. If you allocate the contribution room to a portfolio of stocks averaging a 7.58% dividend yield, you can earn $1,895 per year. That translates to almost $158 per month in tax-free income.

Enbridge could be an excellent stock to begin building a portfolio of diverse income-generating stocks for your TFSA.

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Date
2025/08/29
Date Created
2021/01/22
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