



Retirees: 2 Stocks to Generate Tax-Free Passive Income

Description

The Tax-Free Savings Account (TFSA) is a popular account type for many Canadians looking to achieve a wide range of short-, medium-, and long-term financial goals. If you are a Canadian retiree or an older citizen nearing retirement, you could consider using the contribution room in your TFSA to create a portfolio of income-generating assets that offer you a tax-free revenue stream to supplement your retirement income.

I will discuss the benefits of using a TFSA to create another retirement income stream and dividend stocks that you could consider investing in to lay down the foundations of such a portfolio.

Benefits of using the TFSA

The Canada Revenue Agency (CRA) increases the contribution room each year. After the 2021 update, the CRA increased the contribution room by \$6,000 to bring the cumulative TFSA contribution room since the account's inception up to \$75,500. You and your spouse could enjoy a cumulative contribution room of up to \$151,000 inside your TFSAs combined.

All interest income, dividends, and capital gains generated within your TFSA are free from the clutches of the CRA. It means that focusing on creating an income portfolio in your TFSA can let you pocket all your earnings in the account without paying any taxes.

Top dividend income stocks for your TFSA

You can use the TFSA contribution room to hold cash or the equivalent amount in different types of assets. While Guaranteed Income Certificates (GICs) would be a popular choice to consider for your TFSA contribution room, the fixed-income assets do not offer decent rates to cover rising inflation these days.

It might be a better idea to consider investing in income-generating assets that offer more substantial returns. This is where some of the [best dividend stocks in Canada](#) could come in.

BCE

BCE ([TSX:BCE](#))([NYSE:BCE](#)) could be an excellent stock to consider if you are looking to generate passive income within your TFSA. The stock offers generous and reliable dividend payouts to its shareholders. BCE is one of the most dominant players in the Canadian telecom sector. The company constantly keeps innovating to ensure that it can retain the top spot in the telecom industry.

The company has consistently raised its dividends for the last 12 years, boasting a compounded annual growth rate of 6%. BCE is also accelerating its plans to expand its broadband and 5G networks throughout Canada. BCE is also working with **Amazon** Web Services to improve its customer experiences and boost its overall revenues by modernizing its applications and services.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) is another excellent asset that you can add to your TFSA portfolio to generate tax-free passive income. The third-largest Canadian bank boasts a \$96.74 billion market capitalization, and it is a powerhouse in the industry. Scotiabank has strong commercial banking, retail banking, and wealth management operations in the Canadian market.

Additionally, BNS has established a substantial international presence by expanding into Latin American economies like Mexico, Colombia, Chile, and Peru. The pandemic might have affected the Pacific Alliance, as it is called, but their economies will recover. As the global economic rebound from the pandemic continues, Scotiabank could see a massive boost to its operations.

Foolish takeaway

Any income generated in your TFSA can grow your account balance without incurring any additional taxes. It means that you can rely on the [dividend income](#) from your TFSA portfolio to supplement your retirement income for years to come without worrying about adding more taxable income to contend with each year during tax season.

BCE stock and Scotiabank stock could make excellent foundations for such a portfolio to help you create another income stream for your retirement.

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