Passive Income: How to Generate $285 in Monthly Dividends and Pay No Tax to the CRA

Description

At a time when the economy is volatile, and the world is grappling with a dreaded pandemic, you might want to create a passive-income stream to ensure financial stability. When the first round of lockdowns was imposed last year, Canada's unemployment rate touched a multi-year high of 12.3% in May 2020. It has since improved to 8.2% at the end of May 2021.

The ongoing COVID-19 pandemic as well as economic cycles will continue to weigh heavily on employment rates in 2021 and beyond. So, Canadians need to ensure they have diversified income streams to offset any financial setbacks.

One way to generate passive income is by investing in blue-chip Canadian stocks such as **Emera** (TSX:EMA). You can hold these stocks in a TFSA (Tax-Free Savings Account) and benefit from tax-free gains. Any income derived in a TFSA in the form of dividends, interest, and even capital gains is exempt from Canada Revenue Agency taxes, making dividend stocks the ideal investment in this registered account.

Emera is a utility giant

Investing in utility stocks like Emera remains a safe option, as these companies are recession-proof and generate stable cash flows across business cycles. Emera provides energy services to 2.5 million customers in Canada, the U.S., and the Caribbean. Its proven strategy and portfolio of regulated utilities indicate Emera is well positioned to provide shareholders with growth in earnings, cash flow, and dividends over the long term.

Emera's asset base stands at $31 billion. Around 95% of its earnings are regulated and 68% of its bottom line originates from the United States. The company has outlined a capital program and aims to deploy between $7.4 billion and $8.6 billion between 2021 and 2023, allowing Emera to grow its rate base between 7.5% and 8.5% in this period. This, in turn, should allow Emera to increase operating cash flow and earnings, which should result in dividend increases.

Emera has increased dividends at an annual rate of 6% since 2000. It expects dividends to increase by at least 4% in 2021 and 2022. Right now, EMA stock provides investors with a tasty dividend yield of 4.5%.

In the last 10 years, Emera has managed to return 10.6% to investors on an annual basis, easily outpacing inflation rates and creating wealth for long-term investors. Comparatively, in the last two decades, Emera stock has provided investors with annual returns of 11.1%.

The final takeaway

The cumulative TFSA contribution limit stands at $75,500 for eligible Canadian residents. It means if you invest $75,500 in Emera stock, you will earn over $3,400 in annual dividends, indicating a monthly payout of $285.

However, it does not make financial sense to invest such a huge amount in a single stock. Dividend investors seeking passive income can use this article as a starting point in their investment journey and identify similar stocks that have solid financials, growing EPS, and a solid dividend yield.

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