



Turn Your TFSA Into a Passive-Income Machine

Description

The Tax-Free Savings Account (TFSA) is the perfect tool for wealth creation. By minimizing tax expenses on dividends and capital appreciation, the account helps your investments compound at a faster clip. Unfortunately, most Canadian households underutilize this critical tool.

If you've neglected this account, 2022 could be the year to change that. Here's a simple three-step process to [turn your TFSA into a passive-income](#) machine.

Max out contribution room

Perhaps the best feature of the TFSA is the fact that contribution room accumulates over time. In other words, if you were eligible for the program when it was launched in 2009, you've probably accumulated a total of \$81,500 in contribution room by now.

Maximizing this contribution room is essential. A shortfall of even \$20,000 could lower your annual passive-income potential by roughly \$600 to \$1,200. However, even if you maximize the contribution room, the passive income you can expect probably won't be enough to meet living expenses. For instance, a 5% dividend yield on a maxed-out TFSA only delivers \$4,075 in passive income this year.

To bolster your cash flow, you need to focus on growing your investments first.

Pick a growth stock

To expand your passive income, you need to expand your capital base first. Fortunately, the TFSA shields against capital gains, which means you can focus on aggressive growth stocks initially.

Constellation Software ([TSX:CSU](#)) is a good candidate for this. The company acquires nichesoftware startups to drive growth. Over the past three decades, they've accumulated more than 300small- and mid-sized software firms developing solutions for government agencies and nicheindustries.

Since it went public in 2006, Constellation stock has surged 11,880%. That implies a compounded annual growth rate (CAGR) of 34.7%. Last year, the company said it would reduce its dividend payout and reserve more cash for larger acquisition targets. In other words, the management team is confident it can sustain this pace of growth for the foreseeable future.

Even if you assume a lower CAGR, say, 15%, Constellation Software could potentially double your TFSA in fewer than five years. In other words, your TFSA could be worth more than \$163,000 by 2027 if you max out the contribution room and focus on this growth stock.

That's when you can switch to a dividend stock.

High-yield dividends

After a few years of expanding your TFSA through growth stocks, you could switch to high-yield dividend stocks to generate cash flow. Swapping out Constellation Software for a reliable income generator like **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) could be an ideal strategy at this point.

BCE's market dominance is unlikely to fade in the next five years. Meanwhile, investors can be reasonably confident that demand for wireless data and broadband will steadily grow over that period. In short, BCE's net income and dividends are impenetrable.

At the moment, BCE stock offers a hefty 5.5% dividend yield. If this rate can be sustained by the time your TFSA grows, you could expect \$8,965 annually or \$700 monthly in passive income by 2027.

Bottom line

By maximizing your TFSA contribution room, focusing on growth stocks for a few years, and pivoting to dividend stocks later, you could turn your account into a passive-income machine.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing

Date

2025/09/26

Date Created

2022/01/12

Author

vraisinghani

default watermark

default watermark