TFSA Passive Income: How to Earn $346 Per Month Tax Free for Life

Description

The TFSA is a great tool to help retirees and other investors generate a reliable monthly stream of tax-free passive income from their savings.

TFSA benefits

The TFSA limit is $6,000 in 2022. This brings the cumulative maximum space a person can contribute to $81,500. That's enough room to build a diversified portfolio of top dividend stocks to provide steady tax-free passive income that won't bump you into a higher tax bracket or put Old Age Security (OAS) pension payments at risk of the OAS clawback.

Best investments for TFSA passive income

A GIC is the safest place to put your money, but the return is currently below the rate of inflation. As a result, many investors seeking passive income inside a TFSA are turning to top-quality dividend stocks.

The best stocks to buy tend to have long track records of dividend growth supported by rising revenue and profits. These stocks might fluctuate with the broader market moves, but they tend to go up in price over time due to the steady growth in the dividend.

High yields are attractive, but distribution growth is also important.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) has raised the dividend in each of the past 48 years and intends to boost the payout by an average of 6% per year through at least 2025. The company is working on $20 billion in capital projects over the next five years that will support revenue and cash flow growth. Management is evaluating additional developments that could get added to the program and increase

the dividend-growth outlook.

Fortis owns utility assets in Canada, the United States, and the Caribbean. The majority of the revenue comes from regulated business, making the cash flow predictable and reliable. That's ideal for income investors who are seeking steady returns.

The stock tends to hold up well when the broader market hits a rough patch, and long-term investors have enjoyed solid total returns.

At the time of writing, Fortis stock provides a 3.7% dividend yield.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) raised its dividend by 3% for 2022, marking the 27th consecutive annual increase to the payout. In the 2022 outlook released in December, Enbridge said it expects EBITDA to be $15-$16.6 billion in 2022 and distributable cash flow of $5.20-$5.50 per share.

This puts the respective midpoint targets for each metric at 9% and 10% higher than the 2021 guidance. Enbridge has $5-6 billion per year of growth opportunities on the radar through 2024. The rebound in the oil sector is expected to continue for the next few years and Enbridge's vast oil pipeline business should benefit. The company transports 25% of the oil produced in Canada and the United States.

Enbridge's natural gas transmission and gas distribution businesses performed well through the pandemic and should deliver steady cash flow in 2022 and beyond. Enbridge is also growing its renewable energy operations.

The stock appears attractive at the current price of $52.50 per share and provides a 6.5% dividend yield.

The bottom line on top stocks for passive income

Fortis and Enbridge are good examples of top dividend stocks investors can buy to generate reliable passive income in a TFSA portfolio. An equal investment between the two stocks would provide an average yield of 5.1% today. Investors can easily build a balanced portfolio of top TSX dividend stocks to generate that level of return.

On a TFSA of $81,500, a 5.1% yield would provide $4,156.50 per year in tax-free passive income. That's about $346 per month!

CATEGORY

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2. Investing

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

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