Passive Income: How Far Can You Push Your TFSA?

Description

The Tax-Free Savings Account (TFSA) is an essential part of your passive-income strategy. By deferring taxes on capital gains and dividend income, you could generate a lot more wealth with little starting capital.

Unfortunately, most Canadians don't get anywhere close to maximizing the benefits of this account. At the end of 2018, the average TFSA account held just $20,300 in assets. That's significantly lower than the total accumulated contribution room most people have.

Meanwhile, even those who regularly contribute to the TFSA keep their assets in underperforming instruments such as bank savings accounts. In other words, the entire country is leaving money on the table.

With that in mind, here are three ways you can push your TFSA to the limit for maximum passive income.

High-yield dividend stocks

Canadian stocks typically offer 2.5% in annual dividend yields. The country's largest banks, financial institutions, and telecommunications giants offer yields that exceed that. But their higher yields are offset by the tech sector's lack of yields.

However, if you're looking to maximize your passive income, you may want to focus on niche dividend stocks with exceptional yields. **Fiera Capital** (TSX:FSZ) is a good example. The Montreal-based asset management firm focuses on funding infrastructure projects, private debt, and growth capital for private firms.

In other words, it's a mid-sized institutional investor focused on generating significant cash flow. That's reflected in the stock's dividend yield. Fiera Cap currently offers an 8.77% annual yield. That's more than triple the stock market's average rate!

On a maxed-out TFSA, Fiera Capital stock could deliver $7,148 in annual passive income.

High-growth stocks

TFSA investors seeking passive income don't usually consider growth stocks. That's a missed opportunity in my view.

Sure, growth stocks don't offer dividends, but you can create your own dividend by implementing a systematic withdrawal plan. Let's take an example: **Constellation Software** (TSX:CSU). The Toronto-based company has delivered robust growth for nearly 16 years by acquiring niche enterprise software companies. Investors who bet on this stock in 2006 are now sitting on an 11,200% total return.

That's a compounded annual growth rate of 34%. If you assume future growth will be lower, say, 15%, you can still safely sell 7-8% every year systematically without eroding capital. In other words, you can take some profits off the table every year and create tax-free passive income.

Exotic assets

If you have an appetite for risk, you could push your TFSA even further with exotic assets.

Purpose Bitcoin Yield ETF (TSX:BTCY.B) is a good example. This exchange-traded fund holds **Bitcoin**, of course, but it also offers a dividend yield. The company generates this yield by writing covered-call options on the underlying holdings — a clever strategy since premiums on BTC options are so high.

At the time of writing, the Purpose Bitcoin Yield ETF offers a dividend yield of 18.7%. That yield isn't set in stone. It fluctuates based on Bitcoin's volatility. But you can expect to generate dividends that outpace conventional stocks over time.

CATEGORY

1. Investing

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1. TSX:BTCY.B (Purpose Bitcoin Yield ETF)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:FSZ (Fiera Capital Corporation)

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