3 ETFs for Tax-Free Passive Income

Description

Are you looking for tax-free passive income in 2022?

If so, it pays to hold dividend ETFs in a TFSA.

It's always a good idea to hold dividend stocks in a TFSA, as it spares you the dividend taxes. And if you hold dividend ETFs instead of individual stocks, you also enjoy the benefit of risk reduction. It's a classic win-win situation. In this article, I will explore three high-dividend ETFs that could provide some much-needed tax-free income in your TFSA.

BMO Equal Weight Banks ETF

BMO Equal Weight Banks ETF (TSX:ZEB) is a Canadian banking fund that equally weights all the stocks in the portfolio. That means that all the stocks are held in the same proportion. This is a unique weighting that reduces concentration risk. Normally, indexes are subject to excessive concentration in a small number of assets. For example, about 20% of the S&P 500 is now comprised of about five or six tech stocks. With ZEB, you do not face this risk. Instead, you get an ultra-diversified portfolio of bank stocks that yields 2.91%. It's definitely a quality ETF for today's rising-rate environment.

Vanguard Financials ETF

Vanguard Financials ETF (NYSE:VFH) is another financials ETF — this one based on U.S. financials. That includes

- Commercial banks;
- Investment bank;
- Diversified banks; and
- Miscellaneous companies like **Berkshire Hathaway**.

This is a pretty good collection of financials. And they stand to benefit from interest rate hikes coming in the year ahead. The Federal Reserve is raising rates even more aggressively than the Bank of Canada this year, with "six or seven" interest rate hikes forecast. So, U.S. banks are looking pretty sweet at today's prices. And you can buy all of them in the form of VFH and lock in a 1.91% dividend yield.

BMO Covered Call Utilities ETF

BMO Covered Call Utilities ETF (TSX:ZWU) is by far the highest-yielding ETF on this list but also the one with the least capital gains potential. The fund holds a diversified portfolio of utility stocks, telcos, and pipeline stocks. These stocks have pretty high yields, generally speaking. And the fund increases the yield by writing covered calls on its own portfolio stocks. When you write covered calls, you collect a premium, which can be added to your dividend income to boost your yield. The downside is that this strategy limits capital gains. So, maybe don't buy this fund if you're hoping to cash out some day at a huge gain. Its high yield is really its main draw.

Foolish takeaway

Passive income can be hard to come by. We've all heard of passive-income opportunities like affiliate marketing, blogging, and drop shipping. Some people do make money through these things, but the problem is that they take a lot of work and therefore aren't truly passive. Dividend investing is the one passive-income opportunity that is genuinely passive. You just buy and then collect payouts. It's that simple. And if you shelter your dividend stocks in a TFSA, you're truly laughing.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSEMKT:VFH (Vanguard World Fund - Vanguard Financials ETF)
2. TSX:ZRE (BMO Equal Weight REITs Index ETF)
3. TSX:ZWU (Bmo Covered Call Utilities ETF)

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