TFSA Passive Income: How to Make $350 Each Month Tax Free in 2022

Description

A key feature of the TFSA, or Tax-Free Savings Account, is its flexibility. You can use the registered account to save for retirement as well as build a passive stream of income. As withdrawals from the TFSA are exempt from Canada Revenue Agency, it makes sense to hold a portfolio of blue-chip stocks that have a tasty dividend payout. So, investors can benefit from a passive-income stream as well as long-term capital gains.

How to generate $350 each month in a TFSA

The TFSA is a top choice for investors seeking a passive income. Let's see how Canadian investors can build a passive-income stream, where you can earn over $350 a month in 2022. The TFSA contribution limit in 2022 is $6,000 while the cumulative contribution limit stands at $81,500.

So, if you can utilize the $81,500 to create a portfolio of quality dividend stocks with an average yield of 5.1%, you can generate around $4,200 a year in tax-free income. We'll look at three such dividend stocks across sectors that have an average yield of 5%. So, if you want to build a sustainable passive-income stream in 2022, these three companies should be on top of your watchlist.

Enbridge

It's impossible to ignore **Enbridge** (TSX:ENB)(NYSE:ENB) while shortlisting Canadian dividend-paying stocks. The energy heavyweight offers investors a tasty yield of 6.3%, and ENB stock has also gained 31% in the last year.

A majority of Enbridge's cash flows are backed by long-term contracts, allowing it to thrive across business cycles and maintain its payout, despite macro-economic headwinds. Around 58% of its EBITDA comes from oil pipelines while 26% is generated from natural gas pipelines. It also owns and operates a natural gas utility that accounts for 12% of EBITDA.

In the last 27 years, ENB stock has increased dividends at an annual rate of 10%, showcasing its resilient business.

Bank of Nova Scotia

One of Canada's largest financial institutions, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) has a forward yield of 4.3%. After adjusting for divestitures, the earnings for BNS rose by 18% in fiscal 2021 compared to fiscal 2019, which suggests its business lines have exceeded pre-pandemic earnings levels.

Bank of Nova Scotia's loan growth has been strong, and it focused on secured lending, higher-quality unsecured retail lending, and maintaining a high-quality corporate and commercial loan book. It aims to generate consistent revenue while keeping PCL ratios below historical levels.

Its earnings are forecast to rise at an annual rate of 11% in the next five years, indicating BNS stock is trading at a cheap price-to-fiscal-2023 earnings multiple of 10.7.

Algonquin Power & Utilities

The final dividend stock on my list is **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN), which offers a forward yield of 4.9%. In Q3 of 2021, the company's adjusted EBITDA rose by 27% year over year to $252 million, while analysts forecast sales to touch $3.6 billion in 2022, up from $1.6 billion in 2020.

AQN has already deployed $3.4 billion of capital in 2021, which will allow it to expand its base of cash-generating assets, resulting in higher dividend payouts for investors in the future.

The Foolish takeaway

It's important to have a secondary income stream and dividend stocks can help you achieve this goal. You basically need to identify companies with attractive yields and strong fundamentals. If you want to own dividend stocks in your TFSA, it's advisable to broaden your horizon and hold more than three companies in your dividend portfolio.

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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:ENB (Enbridge Inc.)
4. TSX:AQN (Algonquin Power & Utilities Corp.)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:ENB (Enbridge Inc.)

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araghunath