TFSA Passive Income: How Investors Can Generate $356 Per Month in Tax-Free Earnings

Description

The TFSA is a great tool for Canadian investors to build their own self-directed pension. Investing in top dividend stocks could create a balanced retirement fund that generates reliable and growing tax-free income for life.

TFSA benefit

The government created the TFSA in 2009 to give Canadian savers a new option for building tax-free wealth. The cumulative TFSA contribution limit increases each year, with the size of the increase expanding in line with inflation in increments of $500. The TFSA contribution limit for 2022 is $6,000. This brings the maximum cumulative limit since inception to $81,500.

That is large enough for retirees and other investors to create a diversified basket of quality dividend stocks that can produce a meaningful stream of tax-free passive income. Seniors in particular can benefit from using the TFSA. Any income earned from the TFSA investments is not counted by the CRA when determining net world income that is used to determine the OAS clawback.

The best stocks to buy tend to have long track records of dividend growth supported by rising revenue and higher earnings.

Telus

Telus (TSX:T)(NYSE:TU) is a major player in the Canadian communications industry with world-class wireless and wireline network infrastructure supplying customers with mobile, internet, and TV services. Telus reported solid results in 2021 and raised the dividend by 5.1% last fall.

The company is investing heavily in new fibre-optic lines and a 5G network. The size of the capital expenditures should peak in 2022 or 2023. As a result, more cash flow should be available for distributions in the coming years.

Telus has subsidiaries that are growing at a steady pace and could become meaningful contributors to revenue expansion. Telus Health is a leading provider of digital solutions to Canadian doctors, hospitals, and insurance companies. Telus Agriculture is helping farmers manage their businesses more efficiently. Revenue growth topped 10% at both businesses in 2021.

Telus stock is a solid defensive pick for a TFSA portfolio. At the time of writing, the dividend provides a 4% yield.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure industry. The company moves 25% of the oil produced in the U.S. and Canada and 20% of the natural gas used in the United States. Enbridge reported strong results for 2021, supported by a rebound in throughput along the oil pipelines as fuel demand recovered.

Management continues to find strategic acquisitions and new capital projects to drive growth. Distributable cash flow is expected to increase by 5-7% over the medium term. This should support steady dividend increases. The board raised the payout by 3% for 2022. It is the 27th consecutive annual distribution hike.

Enbridge's stock trades at a reasonable price and currently offers a 6.5% dividend yield.

The bottom line on TFSA passive income

An equal investment between Telus and Enbridge would provide an average yield of 5.25%. It is quite easy to build a balanced portfolio of top TSX dividend stocks that would generate this level of return.

On a TFSA of $81,500, investors getting 5.25% would receive $4,278.75 per year in tax-free dividends. That's more than $356 per month!

CATEGORY

1. Dividend Stocks
2. Investing

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Date
2025/07/23
Date Created
2022/02/23
Author
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