



TFSA Passive Income: How to Earn an Extra \$339 Per Month Tax Free

Description

Canadian investors are using the TFSA to create self-directed pensions that will generate reliable and growing tax-free passive income for the rest of their lives.

TFSA benefits

The government launched the TFSA in 2009. Since then, the cumulative contribution space has grown to a maximum of \$81,500. The TFSA limit increase was \$6,000 for 2022.

People use the TFSA to meet a variety of savings goals. One popular option is to take advantage of the tax-free status of the TFSA to create a stream of passive income to complement CPP, OAS, and company pensions. Seniors in particular can benefit by holding investments in a TFSA instead of in a taxable account. The interest and dividends generated inside the TFSA are not counted by the CRA when net world income is calculated to determine the Old Age Security (OAS) [pension recovery tax](#), otherwise known as the OAS clawback.

High-income retirees face a 15% OAS recovery tax on every dollar of net world income earned above a minimum annual threshold. The number to watch for the 2022 income year is \$81,761.

Good stocks to own in a TFSA focused on passive income include top dividend stocks that raise their payouts on regular basis.

Enbridge

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) raised its dividend by 3% for 2022, marking the 27th consecutive annual payout hike for investors. The increase isn't as high as long-term holders of the stock are used to receiving, but the dividend still provides a robust 6.3% yield at the current share price near \$54.

Enbridge has a steady growth plan in place with annual capital investments expected to trend about \$6 billion in the next few years. The company also has the means to make strategic acquisitions to boost

growth, as investors saw with the US\$3 billion purchase last year of an oil export terminal and related infrastructure in Texas.

Enbridge is launching partnerships to capitalize on the emerging [ESG](#) market for carbon-sequestration and storage services. This opens new growth opportunities for the business, along with the expanding investments in renewable energy and natural gas assets.

Management expects distributable cash flow to grow by 5-7% per year over the medium term. This should support steady dividend hikes and ongoing share buybacks.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) raised its dividend by 11% late last year as soon as the government lifted the pandemic ban on distribution hikes that had been put in place for the Canadian financial companies. Another large increase should be on the way in 2022.

Bank of Nova Scotia's international operations are rebounding from the pandemic hit, and the Canadian banking business remains strong. The economic recovery is expected to ramp up, as restrictions ease and hard-hit segments get back on their feet. Canada's housing market soared in the past two years and is expected to remain strong, even in the face of rising mortgage rates.

The Bank of Canada is expected to start increasing interest rates as early as next month. This could put a strain on some highly leveraged homeowners and businesses with variable-rate debt, but the overall impact for Bank of Nova Scotia and its peers should be positive. Higher interest rates enable the banks to generate better net interest margins.

Bank of Nova Scotia's share price is up more than 15% in the past six months, but the stock still appears attractive at less than 12 times trailing earnings. Investors who buy the shares at the current price can pick up a solid 4.4% dividend yield.

The bottom line

Enbridge and Bank of Nova Scotia are examples of top dividend stocks that offer attractive yields and growing payouts. An equal investment in the two stocks would provide an average yield of 5.35% right now.

Building a basket of top dividend stocks to generate a return of at least 5% is quite easy in the current market. On a TFSA of \$81,500, this would generate \$4,075.00 per year in tax-free income. That's an average of \$339.58 per month!

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:ENB (Enbridge Inc.)

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