



Passive Income for Beginners: Make \$400 Extra a Month Tax Free

Description

\$400 in monthly passive income isn't enough to live on. But it's certainly enough to meet a family's grocery and travel needs every month. It's also on par with the net rental income you would expect from a rental condo unit.

Put simply, passive income on this level could be a game changer — especially if it's tax free. Here's a simple three-step process to make this possible.

Step #1: Max out your TFSA

The Tax-Free Savings Account (TFSA) is an essential part of this strategy. That's because all capital gains and dividend income derived from this account are shielded from taxes. Unfortunately, most Canadians never maximize the use of this account. The average TFSA balance is just \$32,234.

Furthermore, much of this money is held in a savings account with paltry interest rates.

To create robust passive income, you need to max out your TFSA contribution room. As of 2022, that's \$81,500 for most eligible adults.

Step #2: Focus on high-yield dividend stocks

Once you've accumulated \$81,500, the next step is to avoid traditional savings or investment strategies. Leaving this lump sum in a savings account will deliver just 1-3% in annual interest. Meanwhile, an index fund like **iShares S&P/TSX 60 Index ETF** offers a similar dividend yield of just 2.6%.

These strategies can offer a maximum monthly passive income of \$200. To extract more, you will need to seek out dividend stocks with a higher yield.

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) is an excellent example. North America's largest oil and gas

distributor is in a strong position to capitalize on surging [energy demand](#). For the next few years, the company could see more volume flow through its expanding network of pipes than ever before. That makes its cash flows and dividends more reliable.

Enbridge stock offers a 5.7% dividend yield that's likely to increase soon. Management expects this dividend to steadily increase in the years ahead. After all, the company has a track record of 27 consecutive annual dividend hikes.

Enbridge isn't the only high-yield stock. Telecom giant **BCE** offers a 5.3% yield, while financial services firm **Fiera Capital** offers 8%. There are at least a handful of high-quality, high-yield dividend stocks out there.

Step #3: Collect dividends

The final step is the easiest. Deploying your TFSA balance (\$81,500) into a handful of stocks like Enbridge and BCE could help you create a dividend income portfolio. Assuming an average annual dividend yield of 6% on a basket of stocks like Enbridge you could generate \$400 a month in passive income.

Bottom line

A simple three-step strategy can help you generate more passive income than an apartment landlord. By maximizing the contribution room in your TFSA and deploying it in a basket of high-yield dividend stocks, you could generate \$400 a month in tax-free passive income.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:FSZ (Fiera Capital Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
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