TFSA Investors: How to Get $424.48 Per Month in Tax-Free Passive Income

Description

The market pullback is giving retirees and other TFSA investors a chance to buy top TSX dividend stocks that now offer 6% yields. This doesn't quite cover the current pace of inflation, but it goes a long way to reducing the impact of rising prices on investment returns.

TFSA benefits

The government created the TFSA in 2009 as an additional vehicle to help Canadians set money aside for future projects or retirement. Contribution space increases every year and the maximum cumulative TFSA limit per person is up to $81,500 in 2022. This means a retired couple would have as much as $163,000 today in TFSA room to generate tax-free investment income.

All interest, dividends, and capital gains earned inside the TFSA and removed from the account are tax free. This is particularly advantageous for seniors who receive Old Age Security (OAS) pensions. The CRA doesn't include TFSA earnings as part of the net world income calculation used to determine the OAS pension recovery tax, often called the OAS clawback. For retirees who are near or above the minimum income threshold for the OAS clawback, holding income-generating investments inside a TFSA instead of in a taxable account can significantly reduce the tax hit.

Let's take a look at three top TSX dividend stocks that might be interesting TFSA picks today.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure industry with assets that include oil pipelines, natural gas pipelines, natural gas storage, natural gas utilities, and renewable energy facilities.

The recovery in the global energy sector is expected to continue for several years, and Enbridge is making the investments needed to ensure it grows revenue and cash flow.

Enbridge raised the dividend in each of the past 27 years. Growth in distributable cash flow should support ongoing annual increases of at least 3% to match the 2022 hike. The stock appears undervalued at the current share price near $53 and provides a 6.5% dividend yield.

Power Corp

Power Corp (TSX:POW) is a holding company with subsidiaries that primarily operate insurance, wealth management, and asset management businesses in Canada, the United States, and Europe. The stock is down in recent months as part of the overall pullback in the financial sector.

Falling equity markets will have a short-term negative impact on the wealth and asset management operations, but these businesses still generate strong fee-based revenues. On the insurance side, rising interest rates should drive up returns on cash the companies need to set aside to cover potential losses.

Power Corp is an alternative pick for TFSA investors who want to own a high-yield financial stocks without taking on the housing-market risks associated with the banks.

At the time of writing, Power Corp provides a solid 6% dividend yield. The stock currently trades below $33 compared to the 12-month high around $44.50 per share.

The bottom line on top high-yield stocks for passive income

Enbridge and Power Corp provide an average yield of 6.25% right now. The market correction has made it possible to put together a portfolio of TSX dividend stocks that would generate this level of return. Retirees who max out their $81,500 TFSA space could get $5,093.75 per year in tax-free dividends at this rate. That's nearly $424.50 per month!

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3. TSX:POW (Power Corporation of Canada)

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