



TFSA Passive Income: How to Earn \$4,890 Per Year for Decades

Description

The market correction is giving retirees and other TFSA investors a chance to buy [undervalued](#) stocks for high-yield dividend portfolios focused on generating steady tax-free income.

TFSA 101

The government created the TFSA in 2009 as an extra tool to help Canadians save more money to reach financial goals. Some people use the TFSA to build a fund for a property purchase, others take advantage of the tax-free status of the earned interest, dividends, and capital gains to set up a stream of passive income. The TFSA is particularly beneficial for seniors who collect Old Age Security (OAS) pensions. The CRA does not count earnings from a TFSA when calculating net would income to determine possible OAS clawbacks.

The cumulative TFSA limit is as high as \$81,500 in 2022. Top stocks to consider right now for a TFSA include those that have strong track record of providing long-term dividend growth.

Enbridge

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) has raised its dividend in each of the past 27 years. The board hiked the payout by 3% for 2022 and ongoing increases should be steady, supported by growth in distributable cash flow.

Enbridge gets revenue from a range of assets, including oil pipelines, natural gas pipelines, natural gas storage facilities, natural gas utilities, oil export facilities, and renewable energy sites. Growth won't come from massive new oil pipeline projects as it has in the past, but Enbridge still finds opportunities for smaller projects across the asset base and has the size and financial strength to make strategic acquisitions.

ENB stock trades near \$54 at the time of writing and provides a 6.3% dividend yield. The share price was as high as \$59.50 in early June, so there is decent upside opportunity when the market rebounds.

In the meantime, investors get paid well to wait and can take advantage of any additional weakness to add to the position.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) trades for close to \$72 per share compared to the 2022 high around \$95, and now provides a solid 5.7% dividend yield. This is the highest dividend yield among the big Canadian banks today, and investors should see steady payout growth, despite the economic headwinds.

Bank of Nova Scotia raised the distribution by 11% late last year and increased it by another 3% when the bank reported fiscal Q2 2022 results. The board also increased the share-buyback program by 50% to 36 million shares. These increases in return of capital to investors suggest the bank is comfortable with the revenue and profit outlook heading into 2023.

All of the banks saw their share prices fall significantly in recent months amid rising concerns that a recession is on the way. The Bank of Canada is raising interest rates aggressively to fight high inflation. The combination of high prices and soaring debt costs will likely put the brakes on discretionary spending, reduce new investments, and deter home purchases. Things could get ugly for a while until inflation comes under control and property speculators exit the market, but Bank of Nova Scotia has the capital to ride out a rough patch and should continue to deliver strong results.

The bottom line on top stocks for passive income

Enbridge and Bank of Nova Scotia offer attractive dividends that should continue to grow in the coming years. An investment split between the two stocks would provide an average yield of 6% today. Investors can easily build a balanced portfolio of TSX stocks that would provide this level of return. On a TFSA of \$81,500, the 6% yield would generate \$4,890 per year in tax-free income. That's \$407.50 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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