



TFSA Wealth: How to Earn \$363 in Monthly Passive Income for Life

Description

The TFSA is a great tool for setting up a portfolio of top Canadian [dividend stocks](#) that can generate tax-free passive income for decades.

TFSA advantages

The TFSA contribution limit increased to \$6,000 in 2022. This brings the maximum cumulative contribution space per person to \$81,500. Couples now have as much as \$163,000 in TFSA room to build an investment portfolio that can produce streams of tax-free income.

Retirees who collect Old Age Security (OAS) should be particularly interested in this [investing strategy](#). All income generated in a TFSA and removed as earnings remains beyond the reach of the CRA. That's important because the CRA implements a 15% pension recovery tax on OAS payments when net world income tops a minimum threshold. Net world income refers to the total amount of all income paid or credited to you in a year from Canadian and foreign sources minus allowable deductions.

In the 2022 income year, the number to watch is \$81,761. Seniors who collect company pensions, CPP, OAS, [RRIF](#) payments and other taxable income can quickly breach this amount.

[GIC](#) rates are becoming more attractive, but investors with buy-and-hold strategies should also consider top dividend stocks. Fortunately, the market correction is currently giving TFSA investors a chance to buy great Canadian dividend stocks at [undervalued](#) prices. Let's have a look at a couple of these stocks.

TC Energy

TC Energy ([TSX:TRP](#))([NYSE:TRP](#)) trades below \$63.50 per share at the time of this writing compared to the 2022 high around \$74. The pullback in stock price gives investors a chance to secure a handsome 5.7% dividend yield and simply wait for the next rebound.

TC Energy has a \$28 billion capital program on the go that should drive revenue and cash flow growth in the coming years. This will support average annual dividend increases in the 3-5% range. The stock is down in recent weeks due to the revelation that the Coastal GasLink pipeline will be 70% more expensive to build than originally planned. TC Energy has come to an agreement on cost sharing for the project with LNG Canada and the development remains on target, now 70% complete.

TC Energy has raised its dividend for 22 consecutive years.

CIBC

CIBC ([TSX:CM](#))([NYSE:CM](#)) trades for \$65 per share at the time of this writing. That's off the recent bottom of \$59, but still well below the \$83.75 that the stock hit earlier this year.

In the past few months, investors dumped bank stock amid mounting recession fears. An economic downturn is likely on the way in 2023 or 2024, but the selloff in the share prices of Canada's largest banks looks overdone.

CIBC remains very profitable and its American operations help balance out the Canadian revenue stream that has relied on strong mortgage growth in the past decade. The bank generated \$1.65 billion in adjusted net income in fiscal Q2 2022. That was roughly in line with the same period last year. Adjusted return on equity is still strong at 15.2% and CIBC has a robust capital position with a common equity tier one (CET1) ratio of 11.7%. This means CIBC has ample cash to ride out a downturn.

Despite the economic headwinds, management expects the business to generate revenue growth of at least 7% across the business over the medium term. The American commercial banking and wealth management business is expected to lead the way with compound annual revenue increases of 10-13% over the next three years. Canadian personal banking, commercial banking, and the capital market segments are all expected to see revenue increase by 7-10%.

Investors who buy CM stock at the current share price can get a healthy 5% dividend yield.

The bottom line on top TSX stocks to buy for passive income

An equal investment in TC Energy and CIBC would generate an average yield of 5.35%. Investors can easily build a diversified portfolio of top TSX dividend stocks that would provide a similar yield right now. This would generate \$4,360.25 per year in a TFSA of \$81,500. That works out to more than \$363 per month in tax-free income that won't bump you into a higher tax bracket or put OAS payments at risk of a clawback.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)

2. NYSE:TRP (Tc Energy)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:TRP (TC Energy Corporation)

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