Passive Income: How Canadian Couples Can Earn $747 Tax-Free per Month for Life

Description

Canadian savers are taking advantage of their TFSA contribution space to build portfolios of high-yield dividend stocks that can generate steady and growing streams of tax-free passive income for decades.

TFSA 101

The TFSA is a great tool for couples to build self-directed pensions. Since its inception in 2009, the TFSA contribution limit has increased every year. Canadian residents now have as much as $81,500 in TFSA contribution room. That means a couple would have $163,000 today in investment space that can generate tax-free interest, dividends, and capital gains.

GIC rates are now above 4%, but top dividend stocks still appear more attractive. The best dividend stocks to buy for passive income are ones that have long track records of distribution growth. This tends to support a rising stock price that can boost total returns over time.

All earnings generated inside the TFSA remain beyond the reach of the CRA. That means investors can set up a self-directed pension that won't bump them into a higher tax bracket. Any funds removed from the TFSA can go straight into your pocket and the amount of the withdrawals opens up new TFSA contribution room in the next calendar year.

Here's how to produce monthly income by building a diversified portfolio of top TSX dividend stocks.

Enbridge

Enbridge (TSX:ENB) (NYSE:ENB) has raised its dividend in each of the past 27 years. The current distribution provides a 6.2% dividend yield. The energy infrastructure company has increased the payout by 3% for 2022 and investors will likely see annual dividend hikes in the 3-5% range over the medium term. The company has a secured capital program of $13 billion on the go that will drive up distributable cash flow. With a market capitalization of $112 billion, Enbridge also has the financial ability to make strategic acquisitions to boost revenue growth.

The rebound in oil and natural gas demand bodes well for Enbridge. The company has strategically important energy infrastructure in Canada and the United States and is investing to capitalize on export opportunities in the coming years.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) (NYSE:BNS) increased its dividend by 11% late last year and hiked the payout by another 3% when the bank reported fiscal Q2 2022 results. The stock is off its 2022 lows, but still looks undervalued today. Investors can buy Bank of Nova Scotia for $81.50 at the time of writing compared to the 2022 high of $95. The current dividend provides a 5% yield.

Bank of Nova Scotia’s international operations are recovering nicely from the pandemic and offer good long-term growth opportunities. Fiscal Q2 2022 earnings for the group were up 44% to $605 million compared to the same period last year.

The international operations are primarily located in Mexico. Peru, Chile, and Colombia. These countries form the core of the Pacific Alliance trade bloc and are home to more than 230 million people. As middle class wealth expands, Bank of Nova Scotia should see increased demand for loans and investment products.

The bottom line on top stocks to buy for tax-free passive income

An equal investment in Enbridge and Bank of Nova Scotia would generate an average dividend yield of 5.6% right now.

Investors can quite easily build a diversified portfolio of top TSX dividend stocks that would provide a return of at least 5.5%. This would generate $4,482.50 per year on a single TFSA portfolio of $81,500. A couple could earn $8,965.00.

That’s more than $747 per month in tax-free passive income for life!

CATEGORY

1. Dividend Stocks
2. Investing

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