Tax-Free Passive Income: How Couples Can Earn $652 Per Month for Life

Description

If you want to build a portfolio that compounds passive income over time, it's a smart idea to invest through your Tax-Free Savings Account (TFSA).

What you need to know about the TFSA

The TFSA is the only Canada Revenue Agency (CRA) registered account that has no tax liability on the income you earn and the capital you withdraw. Let me repeat: *all* income earned from capital gains, dividends, or interest is safe in your account!

Outside of a TFSA, you could be paying as much as 20% (depending on your tax bracket) of your investment income returns to the CRA. Consequently, the TFSA is the *best* way to truly compound your long-term passive-income returns.

If you were a resident of Canada and 18 years old or older in 2009, you can contribute and invest a total of $81,500 in your TFSA today. For a Canadian couple, that is a combined $163,000 that can earn tax-free income.

The TFSA is an excellent place to start building your own long-term retirement plan. You can use it to buy a wide mix of investment vehicles (GICs, bonds, mutual funds, indexes, ETFs, or individual stocks).

Dividend-paying stocks can offer a great mix of low-risk, high-reward passive-income opportunities. I like to focus on stocks that are growing their business and consistently growing their dividends. Not only do you collect a nice stream of passive income today, but in the future, your annual income will also grow as a hedge against inflation.

Fortis: A top passive-income growth stock

One top dividend stock I'd consider for very reliable, low-risk passive income is **Fortis** (TSX:FTS)(NYSE:FTS). For 48 consecutive years, it has increased its annual dividend. That is a very impressive track record, and it speaks to the quality and reliability of Fortis's business.

It operates a diverse portfolio of regulated electric and natural gas transmission utilities across North America. Everyone needs power and heating/cooling, so its base of earnings is extremely economically resilient.

Fortis only pays a 3.6% dividend yield today. However, it has a capital-investment plan that should help grow earnings and dividends by about 5-6% annually for the next five years. If you like low risk, this is a great stock for long-term passive income.

Enbridge

If you are open to a slightly higher-risk investment, **Enbridge** (TSX:ENB)(NYSE:ENB) trades with an elevated 6% dividend yield. For the past 15 years, it has grown its dividend by a compounded annual rate of around 12%. That rate has recently slowed in the past few years, but 5-7% annual dividend growth going forward would not be unreasonable.

Enbridge is a North American leader in energy transportation. It owns and operates an economically crucial network of pipelines. However, it has also recently diversified into renewable power, hydrogen, and energy exports.

Overall, given its largely contracted base of cash flows, it has a resilient business model that should see modest growth going forward. That makes it solid play for an elevated stream of passive income.

The takeaway on TFSA passive income

If you averaged the dividend yields between Fortis and Enbridge, you could earn a 4.8% yield today. Apply that to two TFSA portfolios with a combined $163,000 of capital and you could earn as much as $7,824 a year, or $652 averaged monthly.

While I'd recommend a more diversified TFSA portfolio than that, this demonstrates that couples can build an easy, tax-free retirement passive-income plan that can last for decades or more.

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Date
2025/07/22
Date Created
2022/08/30
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