Retired Couples: How to Get $679 in Monthly Tax-Free Passive Income

Description

Canadian pensioners can take advantage of their Tax Free Savings Account (TFSA) contribution space to build portfolios of top TSX dividend stocks that provide steady and growing streams of tax-free passive income.

The current maximum TFSA contribution limit is $81,500 per person. That means a retired couple has up to $163,000 in TFSA contribution room. TFSA earnings remain beyond the reach of the CRA, so the income generated on the investments won't put Old Age Security (OAS) payments at risk of the pension recovery tax.

The best TSX stocks to buy for passive income typically have long tracks records of dividend growth.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) has raised its dividend in each of the past 27 years. Investors who buy the stock at the current share price below $54 can lock in a solid 6.4% dividend yield and simply wait for dividend increase to boost the return in the coming years.

Enbridge is a North American energy infrastructure giant with a current market capitalization of $110 billion. The company moves 30% of the oil produced in Canada and the U.S. and 20% of the natural gas used in the United States.

Global energy markets are going through an interesting phase with demand for Canadian and U.S. supplies rising. Liquified natural gas (LNG) shipments from both countries are expected to surge in the coming years, as Europe seeks out reliable supplies from LNG facilities on the U.S. Gulf Coast and Asian buyers book shipments from LNG locations on the Pacific. Enbridge recently announced plans to take a 30% ownership stake in the $5.1 billion Woodfibre LNG project in British Columbia. The company is also expanding its natural gas pipeline infrastructure in both Canada and the United States to serve LNG sites.

Enbridge stock looks cheap right now and is good to buy for a TFSA portfolio focused on passive income. Investors should see the dividend increase by 3-5% per year over the medium term, supported by the current $13 billion capital program. Acquisitions could boost cash flow and increase the size of the distribution hikes.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) owns and operates $60 billion in utility assets in Canada, the United States, and the Caribbean. Nearly all of the revenue comes from regulated assets. This means cash flow tends to be predictable and reliable. The businesses include power generation, electricity transmission, and natural gas distribution operations. These are essential services that homes and businesses need regardless of the state of the economy. As a result, Fortis is a good stock to buy if you are concerned about the potential arrival of a recession in 2023 or 2024.

Fortis has raised its dividend in each of the past 48 years. The company is currently working on a $20 billion capital program that will increase the rate base by about a third to more than $41 billion by the end of 2026. Management expects the new assets to drive enough cash flow growth to support an average annual dividend increase of 6% through at least 2025.

At the time of writing, Fortis stock provides a 3.7% dividend yield.

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

Enbridge and Fortis are good examples of top TSX stocks to buy for attractive dividends that should continue to grow for years. An equal investment in the two stocks would provide an average yield of about 5% today.

Retired couples could quite easily build a diversified TFSA portfolio of quality Canadian dividend stocks that would generate this level of return. That means their $163,000 in combined TFSA investments would generate $8,150 per year in tax-free income. That’s better than $679 per month in earnings that won’t put the OAS pensions at risk of a clawback!

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Date
2025/08/25
Date Created
2022/09/02
Author
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