TFSA Passive Income: How to Earn $340 Each Month Tax Free for Life

Description

Dividend-paying stocks offer a semblance of certainty to equity investors, despite the massive pullback witnessed in recent months. Canadians can leverage the tax-sheltered benefits of their TFSA (Tax-Free Savings Account) by owning a portfolio of blue-chip dividend stocks.

Most Canadian companies that pay investors a dividend have predictable cash flows, strong financials, and report consistent profits. A few of these companies have also maintained or even increased dividend payouts across business cycles.

So, if you are an investor looking to create a passive income stream in your TFSA, consider investing in these dividend stocks right now.

Algonquin Power & Utilities

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) provides regulated water, electricity, and natural gas utility services to more than one million customers in North America. Its growing portfolio of renewable energy solutions, including wind, solar, thermal, and hydro power generation facilities, represents over 4 gigawatts of clean energy capacity in operation and under construction.

The company plans to deploy US$12.4 billion through 2026 to expand its base of cash-generating assets and develop strong rate base growth, which should positively contribute towards earnings expansion.

In Q2, AQN's adjusted earnings rose by 19.6% to $109.7 million while adjusted EBITDA (earnings before interest, tax, depreciation and amortization) rose 18% to $289.3 million. As a majority of its cash flows are contracted, Algonquin offers investors a tasty forward yield of 5%. These payouts have increased at an annual rate of 11.6% in the last 10 years.

Toronto-Dominion Bank

One of the largest banks in North America, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) pays investors an annual dividend of $3.56 per share, indicating a yield of 4.21%. Yes, the lending industry is extremely cyclical and may remain under pressure during economic downturns, due to rising loan defaults.

But TD Bank has a robust Tier 1 capital ratio of over 14%, which is quite high compared to its peers. The Tier 1 capital ratio measures a bank's ability to endure weak economic conditions, and a higher ratio is always favorable.

Owing to its financial stability, TD Bank has increased dividends at an annual rate of 8.74% in the last decade. TD stock is valued at 11 times forward earnings, which is quite reasonable given its dividend yield and earnings growth are forecast to grow annually by 17.5% over the next five years.

TC Energy

The final dividend stock on my list is **TC Energy** (TSX:TRP)(NYSE:TRP), a well-diversified energy infrastructure company. Since the start of this millennium, TC Energy has returned 13% to shareholders annually.

With an asset base of more than $100 billion, TC Energy derives 95% of its comparable EBITDA from rate-regulated assets or long-term contracts. Due to its stable cash flows and widening asset base, TC's dividend payouts have increased by 7.1% annually.

Currently its dividend stands at $3.60 per share, indicating a forward yield of 5.7%.

The Foolish takeaway

These three Canadian stocks offer an average dividend yield of 5% to investors. So an investment of $81,500 (the cumulative TFSA contribution limit) distributed equally across these stocks would help you earn tax-free passive income of almost $340 each month for life.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. NYSE:TRP (Tc Energy)
4. TSX:AQN (Algonquin Power & Utilities Corp.)
5. TSX:TD (The Toronto-Dominion Bank)
6. TSX:TRP (TC Energy Corporation)

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