



## Top Stocks for Passive Income: How to Earn \$366 Per Month Tax Free

### Description

Canadian savers can take advantage of their Tax-Free Savings Account (TFSA) contribution limits to invest in a diversified portfolio of top [TSX](#) dividend stocks to generate steady streams of tax-free passive income.

### TFSA limit 2023

The [TFSA](#) limit for 2023 is \$6,500. This brings the total maximum contribution space to \$88,000. That's a large enough sum for investors to build decent portfolios of dividend stocks that can generate reliable and growing streams of tax-free dividend.

All TFSA investors should consider maxing out their contribution room before holding investments in taxable accounts. This is particularly the case for retirees who receive Old Age Security (OAS) as well as other taxable pensions, including the Canada Pension Plan and company pensions.

Why?

It doesn't take long for net world income to reach the CRA's limit before the [OAS pension recovery tax](#) starts. For the 2023 income year, the number to watch is \$86,912. Every dollar of net world income above that amount will trigger a \$0.15 OAS clawback, reducing the OAS payments that begin in July 2024.

TFSA earnings are not counted by the CRA when it calculates net world income, so retirees can potentially reduce or avoid the OAS clawback by earning investment income in the TFSA rather than in a taxable account.

### Fortis

**Fortis** ([TSX:FTS](#)) raised its dividend in each of the past 49 years and intends to boost the payout by 4% to 6% per year through at least 2027. This is the kind of quality dividend stock that would be ideal

for a portfolio focused on passive income.

Fortis has \$64 billion in utility assets and gets 99% of its revenue from regulated businesses, including power production, electricity transmission, and natural gas distribution. The current \$22.3 billion capital program is expected to drive up the rate base enough to support the planned dividend increases.

Fortis stock trades near \$56 at the time of writing compared to the 12-month high around \$65. Investors can get a solid 4% dividend yield on the dip and simply wait for the dividend to increase in the coming years.

## Bank of Nova Scotia

**Bank of Nova Scotia** ([TSX:BNS](#)) generated fiscal 2022 earnings that beat the 2021 results. The stock price, however, is down about 24% over the past year. Investors dumped bank stocks through much of 2022, as rising interest rates stoked fears of a recession in 2023 or 2024.

An economic slowdown is expected, but economists widely predict it will be short and mild. Households and businesses built up large savings during the pandemic and this safety net is expected to mitigate the impact of rising loan expenses and high inflation until the Bank of Canada can get inflation back down to its 2% target.

At the current multiple of 8.7 times trailing 12-month earnings, BNS stock looks priced for a deep economic downturn.

Near-term volatility is expected, but the dividend should be safe. Bank of Nova Scotia increased the payout in 43 of the past 45 years. At the time of writing, the distribution provides an annualized yield of 5.9%.

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

Fortis and Bank of Nova Scotia are good examples of top TSX dividend-growth stocks that now look cheap and offer attractive yields.

Investors could quite easily put together a portfolio of quality dividend stocks today that would provide an average yield of 5%. This would generate \$4,400 per year in tax-free income. That averages out to more than \$366 per month!

### CATEGORY

1. Investing

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1. TSX:BNS (Bank Of Nova Scotia)
2. TSX:FTS (Fortis Inc.)

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aswalker

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