TFSA Investors: 2 Top Dividend Stocks for Passive Income

Description

With the 2022 update, the [Tax-Free Savings Account](#) (TFSA) saw an expansion to its annual contribution limit to $6,500. The limit from 2019 to 2021 was $6,000. However, rising inflation prompted regulators to increase the contribution room further. The promise of tax-free returns is an excellent reason to use any available contribution room in your TFSA.

When you buy and hold income-generating assets like guaranteed investment certificates (GICs), exchange-traded funds (ETFs), mutual funds, and stocks, any income they earn can line your account balance with more cash without incurring income taxes. If you play it smartly, you can use your TFSA as a tax-free passive income stream.

While carrying a slightly higher risk than GICs, [dividend investing](#) in a TFSA offers higher tax-free income. Today, I will discuss two monthly dividend-paying stocks you can add to your portfolio to generate passive income in your tax-advantaged account.

Exchange Income

Exchange Income Corp. ([TSX:EIF](#)) is a $2.3 billion market capitalization company headquartered in Winnipeg, with an acquisition-focused approach in the aerospace, aviation services, and manufacturing industries. The company's business plan is simple: invest in well-established companies with strong cash flows and profitability in niche markets, and capitalize on them to expand its own revenues.

The company enjoyed the best quarterly financial performance in its history in the third quarter of fiscal 2022. In the September 2022-ending quarter, net earnings and free cash flow increased by 123% and 43% year over year, respectively.

As of this writing, EIF stock trades for $53.52 per share, boasting a 4.71% dividend yield that it pays out monthly. With a strong business model supporting its monthly dividend payouts, it can be a good income-generating asset to earn tax-free passive income in a TFSA.

Pembina Pipeline

Pembina Pipeline Corp. ([TSX:PPL](#)) is a $26.8 billion market capitalization pipeline company based in Calgary. The midstream energy company serves the North American energy industry with its extensive energy transportation and storage infrastructure.

Since pipelines are essential to energy supply, Pembina Pipeline's services will not go away anytime soon. PPL stock can be an excellent way to gain exposure to the energy industry while lowering your risk to volatile energy prices. The company's more attractive risk-reward model does not rely on the underlying commodity's valuation for its revenue.

Rather, 85% of its revenue is contracted, and it generates money by servicing other companies through its infrastructure. While energy prices can impact its business, it does not have the same volatility exposure to commodity prices as many other energy stocks. As of this writing, Pembina Pipeline stock trades for $48.59 per share, boasting a juicy 5.37% dividend yield that it pays monthly.

Foolish takeaway

By adding shares of these monthly dividend-paying stocks, you can produce passive income every month instead of quarterly. If you are starting out, you may consider choosing a dividend reinvestment program to use your tax-free income to buy and hold more shares of the income-generating assets. This way, you can unlock the power of compounding to accelerate your tax-free wealth growth.

The more your holdings grow in the account, the greater your dividend income can be. Eventually, you can begin using the monthly payouts as another income stream to help with your monthly expenses. EIF stock and PPL stock can be worthy investments for this purpose.

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1. Energy Stocks
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2. TSX:PPL (Pembina Pipeline Corporation)

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