



## How to Generate \$500 in Tax-Free Passive Income Per Month

### Description

Last year, the stock market started on a bullish note but came crashing down. Many investors that invested in tech, airlines, and consumer discretionary stocks at their peaks took a hit and exited the stock market, blaming their luck. But [stock market investing](#) need not be about luck and timing. You can win a 100-meter race by running fast. But running a marathon is not about how fast you run but how steady you are. Passive income is the investing marathon as it gives you a steady amount for a long time.

### Running the \$500 passive income marathon

How about trying a different approach this year? Instead of letting the market govern your returns, you determine your earnings. One way to do so is to create a diversified [dividend portfolio](#) that gives a 5% average yield and earns you \$500 in passive income.

In the current market, many capital-intensive companies feel the pressure of rising interest rates. A string of dividend cuts is likely. If you own stocks that are on the brink of a dividend cut, you can balance the risk with some dividend aristocrats and sector leaders.

### A leading retail REIT

**Canadian Tire's** real estate business **CT REIT** ([TSX:CRT.UN](#)) can help you survive the weak macro environment without a high risk of dividend cuts. The REIT has the backing of Canadian Tire, which has a strong history of paying regular quarterly dividends without any cuts for over 23 years. In the last financial crisis, the retailer maintained a stable dividend between 2008 and 2010. The resilient retailer spun off its retail real estate and created CT REIT, which earns 91.5% rent from Canadian Tire.

CT REIT's third-quarter distribution payout ratio was below 75%. The payout ratio tells you what percentage of cash flow the company is using to pay distributions to shareholders. When this ratio is high, there is a greater possibility the company might cut its distribution to preserve cash in an uncertain economy. The 75% payout ratio shows that the REIT can maintain its distributions unless

there is a nasty surprise.

## BCE

**BCE** ([TSX:BCE](#)) is a dividend aristocrat riding the 5G momentum. This fifth-generation communication technology will bring broadband-like speed to edge devices, enabling them to do real-time monitoring, updates, and artificial intelligence. 5G will go beyond laptops and mobile phones into cars, drones, robots, cameras, and anything that needs to be connected to the internet.

BCE is already ahead in the 5G rollout and is expanding its fibre network to the remotest locations, bringing more people into its subscriber base. The growing subscriber base and increasing average revenue per user could help the telecom giant continue increasing its dividend at a compounded annual growth rate (CAGR) of 5%.

## How to earn \$500 in tax-free passive income from the above stocks?

Stock	Average Stock Price	Investment (\$500/month for 8 years)	Number of Shares	Dividend/Share in 2030	Annual Dividend
BCE	\$68	\$48,000	706	\$5.18	\$3,657.08
CRT.UN	\$17.3	\$48,000	2,775	\$0.98	\$2,719.50
<b>Total</b>		<b>\$96,000</b>		<b>\$6.16</b>	<b>\$6,376.58</b>

How to earn \$500 passive income per month

While the above stocks are strong dividend payers, how can they earn you \$500/month in passive income? Taking a conservative estimate of a 5% average dividend yield, you need to invest \$120,000 through your Tax-Free Savings Account ([TFSA](#)) to get \$500 per month tax-free. But you can get the desired outcome by investing \$96,000 over eight years, with \$500 per month per stock.

The above two stocks grow their dividend at a CAGR of 2.5% ([CT REIT](#)) and 5% (BCE). The \$500 per stock you invest for eight years could buy you 706 shares of BCE and 2,775 shares of CT REIT. Adding up the growing dividends per share, the total annual passive income could cross \$500/month.

The math will work if the stock continues paying incremental dividends and the stock price doesn't fluctuate too much. Although there is a risk the company might cut dividends or pause dividend growth. Such a situation could delay your \$500 per month income. But there is also an opportunity that the stock price might fall significantly through 2023 and reduce the average stock price. The lower valuation would allow you to buy more shares at the same amount and reach your \$500 goal earlier than expected.

## CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

## TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)
2. NYSE:BCE (BCE Inc.)
3. TSX:CRT.UN (CT Real Estate Investment Trust)

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