



TFSA Investors: How to Earn \$125 a Month From Dividend Stocks

Description

For Canadians looking to save for a long-term goal, you've got a couple of options in terms of which bank account you'll want to use. Either a Tax-Free Savings Account (TFSA) or a Registered Retirement Savings will work just fine.

Both accounts have their own set of strengths and weaknesses. RRSPs are great, because contributions can be used to lower your taxable income. However, early withdrawals are taxed. TFSAs allow investors the freedom to make tax-free withdrawals, but Canadians are only eligible to contribute post-taxed income to the account.

What if you're saving for a short-term objective, like a down payment on a housing property? If that's the case, a TFSA is what you're looking for. Tax-free withdrawals will provide the flexibility on when you decide to access your money.

Don't forget about TFSA contribution limits

Similar to the RRSP, there are annual contribution limits on TFSAs. The difference is that the yearly contribution limit of a TFSA is much lower than that of an RRSP.

Officially introduced to Canadians in 2009, the annual contribution limit has hovered around \$5,000 per year for the past 12 years. If you added up the yearly limits since 2009, the total amount that a Canadian is eligible to contribute today is \$69,500.

The contribution limit for 2021 is [expected to be around \\$6,000](#). Canadians should know by the end of this month exactly what the limit will be.

Owning dividend stocks in a TFSA

Investing in dividend stocks can provide investors with passive income while they save for their short- or long-term goals. The passive income can be re-invested in the stock automatically or withdrawn directly from the TFSA, completely tax-free.

The major Canadian banks offer some of the highest dividend yields you can find in the stock market today. Yields today are higher than they've been in a while due to the drop in share prices that the Canadian banks have been hit with this year.

The lowered interest rates have presented a very interesting [buying opportunity](#) for Canadian investors. Year to date, the Canadian banks may be trailing the returns of the broader market, but the Big Five banks have been some of the most reliable Canadian stocks to own for decades.

Year to date, **Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)** is down close to 15%. In comparison, the Canadian market is trading today at roughly the same price that it began the year.

For growth investors, the Canadian banks might not be too exciting. But for value investors and passive-income seekers, Bank of Nova Scotia is a compelling buy today.

The company pays an annual dividend of \$3.60 per share, which is good enough for a yield of 5.9% at today's stock price.

An investor that purchased \$25,000 worth of stock of Bank of Nova Scotia today would earn close to \$1,500 per year through dividends, or roughly \$125 per month.

Foolish bottom line

TFSA's do have their drawbacks in comparison to RRSPs, but the tax-free withdrawals allow Canadians the flexibility to use the account for short- or long-term investments or to generate passive income.

Bank of Nova Scotia is no growth stock, so investors shouldn't be expecting this to be a multi-bagger over the next decade. But the bank can provide much-needed stability for an investment portfolio and a dividend yield that you'll be hard-pressed to match.

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