Young Couples: Earn Around $100/Month Tax-Free With Just 1 Year of TFSA Contributions

Description

Financially speaking, Canadian couples have the power to do great things with their combined TFSAs. With just a $6,000 contributed in a single year, a $100 per month tax-free income stream can be unlocked.

Which couple couldn't use an extra hundred bucks per month to spend on a special date night?

While $80-$100 between two people may not seem like much, it can really compound upon itself if reinvested within a TFSA. That measly $80-100 sum added to your TFSA will snowball in due time. Add potential dividend increases from the dividend payer and capital gains over time into the equation and couples will eventually find themselves sitting on a mountain of cash that they wouldn't have thought would be possible with a seemingly small income stream.

In a way, a TFSA income stream is like a money tree. The more you add water (the more dividend reinvestment and annual TFSA top-ups) you do, the bigger the tree will become, and the larger fruit it'll yield.

For now, it's plausible to score a relatively small tree with income stocks like **InterPipeline** (TSX:IPL) with its whopping 8.5% dividend yield at the time of writing. Shares have been under pressure recently, and by the time you're reading this piece, the yield could be anywhere between 8% and 10%.

There has been a tremendous amount of negative momentum faced by the name as many of its pipeline peers since the 2014 plunge in oil prices. The dividend still appears relatively safe despite having a somewhat stretched, uptrending payout ratio (87% as of Q1 after sustaining capital) and a less-than-optimal amount of debt weighing down the balance sheet with a 1.12 debt-to-equity ratio as of the last quarter.

InterPipeline's dividend history is encouraging, however, with a dividend hike posted every year over the last decade. The magnitude of such hikes has decreased in recent years, which is understandable given the industry-wide pressures faced by the name.

Moving forward, the company is expected to receive a bit of relief in the form of a $3.5 billion plant that's to be finished in the latter part of 2021. Should all go according to plan, the distribution should remain intact over the medium term, but as fellow Fool Kay Ng noted, investors shouldn't expect substantial dividend growth or big capital gains until the company finally gets its big cash flow boost over the next few years.

Foolish takeaway

Young couples should think about "locking-in" InterPipeline's fat 8.5% dividend yield and dollar-cost-averaging into an even larger position over time to score a potentially larger yield on a lower cost basis.

Sure, InterPipeline's a stressed firm, but it has a promising track record of rewarding its long-term-focused shareholders. Should the yield hit the 10% mark as it did a decade ago, I'm liking the risk-reward even more even with a higher probability of a dividend reduction should it hit such levels.

Based on traditional metrics, the dividend isn't the safest in the world, but given the highly-regulated nature of pipelines, the hope for a turnaround in Canada's energy sector, and the firm's secured growth projects, I'd say the likelihood of a significant dividend cut between now and 2021 is fairly unlikely.

As such, InterPipeline looks like a solid contrarian bet for those looking for a sizeable monthly income boost.

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