Tax-Free Fortune: How to Safely Collect $8,500/Year in Passive TFSA Income

Description

If you're one of those investors who have stuck with their long-term TFSA investment plan through thick and thin, you're probably at or are very close to hitting the $100,000 TFSA milestone. If you have a six-figure TFSA, you now have the power to unlock a relatively stable $8,500 a year tax-free income stream.

Who couldn't use another $8,500 in tax-free annual income without risking their shirt?

Simple math tells us that you'll need a 8.5% yield to score $8,500 with $100,000 in invested principal. And when it comes to securities with yields that are more than double the yield as recommended by the "4% rule," you're going to need to do the extra homework to ensure that your dividend is not only safe but has the potential to grow over time.

When it comes to most securities yielding north of the 8% mark, you could be dealing with a "dangerously high yield" if you look at the yield (the main attraction) first and give less consideration to the underlying fundamentals.

A larger dividend payout relative to market cap could severely limit a firm's financial flexibility, and if the balance sheet is extremely "tight," and the fundamentals aren't improving over time, a dividend reduction may be seen as a source of instant financial relief for managers who are looking to get a firm back on the right track.

When it comes to securities yielding 8.5%, I think **Inter Pipeline** (TSX:IPL) is in a league of its own when it comes to long-term dividend stability.

Like many other +8% yielders, the dividend is becoming a growing, seemingly burdensome financial commitment. Given Inter Pipeline's encouraging medium-term growth portfolio, however, I think the dividend will not only be well-supported but grown further at a low-single-digit rate, as new cash flow sources gradually come online.

One of the more exciting projects on the horizon is the Heartland Petrochemical Complex, an integrated propane dehydrogenation and polypropylene complex that'll be the first of its kind in

Canada. The project is slated to complete in 2021 and will be a massive boon for Inter Pipeline's ailing stock, which is down around 50% from the top at the time of writing.

The Heartland Complex "comes with a price tag in the neighbourhood of $3.5 billion but is expected to add up to $500 million in annual EBITDA by the time all is said and done," according to fellow Fool contributor Jason Phillips.

At the time of writing, the stock trades at a relatively inexpensive 11.78 EV/EBITDA and 17 times next year's expected earnings. It's hard not to want to back up the truck given the limited time opportunity to "lock in" the robust 8.5% yield, which could shrink substantially should shares recover into the end of the year. Sure, the dividend isn't the safest in the world, but I think it's one of the safest (and "growthiest") of any TSX-traded security with a yield magnitude that's even comparable.

I'd say now is the time to stash the name in your TFSA, as the stock flirts with its strong level of support at $20. Add potential industry catalysts into the equation, and the stage looks set for outsized returns over the medium to long term.

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