Millennial Couples: How to Make $11,000 in Tax-Free Dividends Every Year

Description

The ongoing uncertainty amid the global pandemic has shown us just how fickle the economy can be. In just a few months, millions of Canadians were rendered jobless, which has reaffirmed the importance of generating multiple revenue streams. If you want to supplement your income, dividend stocks can be great to accomplish this goal.

If you hold dividend stocks inside a TFSA (Tax-Free Savings Account), you can generate recurring income and shield these earnings from CRA (Canada Revenue Agency) taxes. I'll show you how millennial couples can make close to $11,000 in tax-free dividend income.

You can create a recurring stream of dividend payments by investing a lot of money in low-yielding stocks or by being willing to take on the risk of owning high-yielding stocks where payouts might be unsustainable. However, the recent pullback in equity markets has increased dividend yields of quality companies to attractive levels.

The dip in the stock prices of companies in the energy sector due to lower crude oil prices provides a once-in-a-decade opportunity to buy undervalued and high-dividend-paying assets. Millennial couples can leverage their combined TFSA balance and buy stocks such as **Enbridge** (TSX:ENB)(NYSE:ENB).

The cumulative TFSA contribution room stands at $69,500 for an individual, and this doubles to $139,000 for a couple.

Enbridge stock has a dividend yield of 7.8%

The recent market sell-off has sent energy stocks such as Enbridge spiraling downward. Enbridge stock is trading at a price of $41.75, which is 27% below its 52-week high of $57.32. However, it also means Enbridge investors will benefit from the company's tasty yield of 7.8%.

Enbridge is an energy infrastructure giant with a market cap of $85 billion and an enterprise value of $160 billion. It has been one of the more durable companies in the energy sector when it comes to paying dividends. Enbridge has paid dividends for 65 years and has increased these payouts in each of the last 25 years.

Enbridge is a pipeline stock and transports commodities all over North America. It is somewhat immune to fluctuations in commodity prices and generates over 95% of cash flows from fee-based contracts. This low-risk business model has enabled Enbridge to increase dividends at an annual rate of 11% since 1995.

Another important metric for Enbridge is its payout ratio for 2020 stands at less than 50%, which means its attractive yield is easily sustainable at a time when energy peers have drastically cut or completely suspended these payments. A low payout ratio helps the company to not only increase dividend payments but also to invest in capital-intensive projects that will support top-line growth.

The Foolish takeaway

If you invest $139,000 in Enbridge stock, you can generate close to $11,000 in annual dividend payments. Further, if Enbridge can maintain its annual dividend growth of 11%, you can generate an astonishing $78,000 in annual dividends in the next 20 years. If we project a conservative dividend growth estimate of 5% per year, annual payments will reach $27,000 a year.

This is just an example of a top dividend stock for your TFSA. It does not make financial sense to put all your eggs in one basket. You can instead identify similar dividend-paying giants for your TFSA portfolio and benefit from long-term gains as well as capital appreciation.

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