TFSA Couples: How to Make Over $850/Month in Tax-Free Passive Income

Description

The TFSA, or Tax-Free Savings Account, was introduced back in 2009 to help Canadians increase their savings. The TFSA is a registered account where you can hold investments across asset classes that include stocks, bonds, and mutual funds.

While contributions towards the TFSA are not tax deductible, any withdrawal in the form of capital gains, interests, or dividends is exempt from Canada Revenue Agency taxes. The maximum contribution limit towards the TFSA is $81,500, and for married couples, it doubles to $161,000.

As withdrawals are tax free, the TFSA is ideal to hold a basket of dividend stocks, where you can benefit from a steady stream of recurring income as well as long-term capital gains. However, investors should understand that dividend payments are not a guarantee, and it's important to identify companies with robust fundamentals and the ability to generate cash flows across business cycles.

With a contribution room of $161,000, a stock has to offer investors a dividend yield of more than 6.4%, which will result in monthly payouts of $850.

Pembina Pipeline

A Canadian energy heavyweight valued at a market cap of $22 billion and an enterprise value of $33.6 billion, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) has a forward yield of 6.27%. Pembina successfully endured an extremely difficult period during COVID-19, but the current commodity environment is ideal for the company. In fact, the rising prices of crude oil will drive pipeline volume higher for Pembina's existing assets.

The company reported adjusted EBITDA of $850 million in Q3 of 2021, which was 7% highercompared to the year-ago period. Its marketing business increased EBITDA by $75 million in Q3 andwas a key driver of bottom-line growth. Pembina's marketing business continues to benefit from highermargins on natural gas liquids (NGL) and crude oil sales as well as the positive impact of higher NGLvolumes. Its earnings in Q3 stood at $588 million, which was 82% higher compared to the year-agoperiod.

Enbridge

One of the largest companies in Canada, **Enbridge** (TSX:ENB)(NYSE:ENB) offers investors a forward yield of 6.53%. The energy giant recently increased its dividends by 3%. In fact, in the last 27 years, Enbridge has increased dividend payouts at an annual rate of 10% showcasing the resiliency of its underlying business.

In addition to dividend increases, Enbridge continues to improve shareholder wealth via buybacks. It also continues to invest in capital expenditures, which will expand its base of cash-generating assets and support dividend increases in the future. Additionally, Enbridge is investing heavily to increase revenue from renewable energy operations, which accounts for 4% of total cash flows right now. Enbridge maintained it will allocate one-third of its capex budget towards building its renewable energy portfolio.

The cash flows of both Enbridge and Pembina Pipeline are backed by long-term contracts, making them relatively immune to fluctuations in commodity prices. This model also enabled the companies to maintain dividend payments amid COVID-19.

The Foolish takeaway

An equal investment of $81,500 in each of the two stocks will help you generate $858 in monthly dividends and more than $10,500 in annual dividends. However, it does not make sense to allocate a large portion of your capital in just two stocks. You need to identify similar companies with tasty dividend yields and a strong business model that can support consistent dividend increases over time.

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