How to Get $100K in Tax-Free Income From Your TFSA

Description

I'm confident a $100,000 annual income will be enough for my retirement needs in about 35 years.

I estimate $1 will have about half as much buying power in three-and-a-half decades versus today, so my $100,000 annual income will be about $50,000 in today's dollars. Since I won't have to worry about saving for retirement, work costs, or paying much in taxes, I'm certain that will easily be enough money to afford a comfortable middle-class lifestyle. Any cash I get from CPP or other government programs will be a bonus.

How I plan to not pay any tax will be from growing my TFSA to the point where it can churn out $100,000 in dependable income each year. Here's how I think that's very possible and how you can do so, too.

The power of compounding

Assuming my TFSA yields a generous 4% upon retirement — which is a realistic dividend yield target — I'll need to amass some $2.5 million in capital. That's a lot of money, even a few decades from now.

Here's how this can be accomplished, even if starting from scratch today. If you start with $50,000 in savings and put the maximum of $6,000 into the account each year for 35 years and get a 10% return, you'll end up with some $3.1 million in the account. That nest egg will generate approximately $120,000 in annual income each year at a 4% withdrawal rate, hopefully without touching a nickel of principal.

Say you come up a little short and only compound your money at 8%. That will diminish your nest egg significantly, with the total amount only hitting a little more than $1.8 million. But remember, you'll have CPP and other government programs spinning off income, which should get you pretty close to the $100,000 per year goal. And since your income will be so low, this strategy will see you pay virtually zero taxes.

What stocks to choose?

Choosing stocks doesn't have to be a complex exercise. Countless investors have found success by buying great companies and holding onto these shares for a very long time.

Take **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY), a REIT that owns some of the world's finest property. Marquee holdings include Brookfield Place in Toronto, World Trade Plaza in New York City, Canary Wharf in London, and Potsdamer Platz in Berlin. It also owns some 121 million square feet of the world's best retail property, including a large portfolio of high-quality U.S. shopping malls.

The company has a simple formula that should allow it to generate predictable growth going forward. It specializes in acquiring distressed property and then slowly growing rents over time. It also has plans to redevelop many existing properties to add further value. These moves should support growth of between 5% and 8% annually, which isn't bad for a stock that already yields a robust 6.2%.

Since I called the stock my best pick for 2019, shares are up approximately 25%.

Another fantastic stock to own over the long term is energy services giant **Enbridge** (TSX:ENB)(NYSE:ENB), the owner of some 27,000 km of crude oil pipelines, and an ownership stake in more than 310,000 km of natural gas pipelines. The company also serves nearly four million natural gas utility customers and generates 3,600 megawatts of energy from its renewable power plants.

The beauty of Enbridge is the company posts predictable results, even when the rest of the energy sector is suffering. As long as oil is still being used to fuel our modern economy and natural gas is required to keep us warm, Enbridge is well positioned to keep transporting these important commodities.

The company generated $4.42 per share in distributable income last year. This year's number could be closer to $4.60 per share, while paying out $2.95 per share in dividends. This gives the company a payout ratio of just 64%, which is excellent for a stock currently yielding 5.9%.

The best part of an investment in both Enbridge and Brookfield Property Partners is both stocks pay out far higher than 4% dividends, which makes them excellent choices to hold once the portfolio switches from growth mode to needing to generate income.

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1. Editor's Choice

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