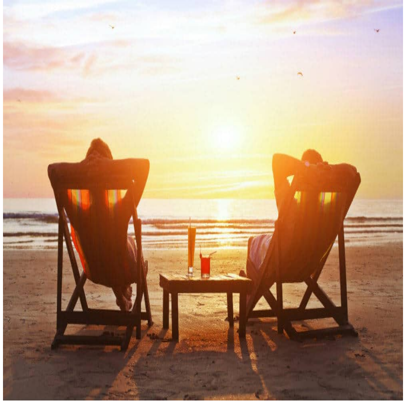

Retirees: How You Can Earn $50,000 in Tax-Free Dividends

Description

There are multiple reasons why I feel every investor should pursue a dividend growth portfolio.

A good dividend portfolio is stuffed with high-quality names that do well during a bull market and protect capital during bear markets. A growing dividend stream provides a perfect income source for retirees. And I find owning great dividend names helps me sleep well at night.

Turns out there's another big advantage to this type of investing, which is helping you minimize your total tax bill. Here's how you can earn $50,000 per year in dividends while not paying a nickel in income tax.

How dividends are taxed

Dividends from most publicly traded corporations have long been taxed at advantageous rates as the federal government tries to encourage Canadian investors to put their capital to work locally.

In certain provinces — such as British Columbia, Alberta, Saskatchewan, and Ontario — you can earn up to $50,000 in dividend income tax free, assuming that's your only source of income. Since a typical retiree will also be betting income from CPP or OAS, you might have a small tax bill, but it'll total less than 5% of your income, which is fantastic for producing enough to fund a middle-class lifestyle.

And remember, both you and your spouse can do this. This means that achieving a $100,000 household income and paying zero in income taxes is entirely possible. And I haven't even mentioned the possibility of tax-free income from a TFSA.

For instance, if you earn $50,000 annually from dividends and $10,000 annually from CPP, and you live in Ontario, you paid just $1,497 in taxes in 2018, which gives us a total tax rate under 3%. Remember, it's the CPP payments that mean you'd pay any tax at all. If your income was solely from eligible dividends you'd pay zero taxes.

Which stocks to buy?

Now that we've established how powerful a dividend strategy can be, it's time to pick some of the best securities in Canada to form the bedrock of our portfolio.

BCE Inc. (TSX:BCE)(NYSE:BCE) is one of my largest holdings, a company I'm confident will continue to thrive for decades. Sure, you might argue some of the company's services are about to enter a terminal decline — like home phone service especially, as well as cable — but the company should be able to offset that by increased growth in both wireless phone service and wired internet. Besides, the cable division is still going strong, posting a 7.5% growth in cable customers in the last year.

BCE also owns some of Canada's most interesting media assets, including television channels like CTV, TSN, and HBO Canada. The company also owns many of Canada's top radio stations as well as a big chunk of Maple Leaf Sports and Entertainment, the parent company of the Toronto Maple Leafs and Raptors.

Investors are getting one of Canada's best dividends when they own BCE shares. The current payout is $3.17 per share, good enough for a 5.3% yield. The payout has been hiked each year since 2008.

Another great company to own over the long-term is **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET), an energy producer with assets spread across Canada, the United States, Europe, and Australia. Together, these assets combine for approximately 100,000 barrels per day in production, with most of that product priced as Brent crude. Remember, Brent crude prices have been higher than the North American benchmark price for years now.

Vermilion's strong cash flow ensures that it has enough capital to both pay its dividend and expand production, all without adding much debt. The company projects that it'll do a little more than $500 million this year in free cash flow. Shares have a current market cap of $4.8 million. You have to like that price-to-free cash flow ratio.

Vermilion pays one of the best dividends out there; its shares currently yield 8.7%. You might think a payout that high is risky, but Vermilion increased its dividend as recently as 2018, upping the monthly payout from $0.215 to $0.23 per share. You don't increase your dividend if it's at risk of being cut.

The bottom line

I'm grateful I figured out the power of Canadian dividends early in my investing lifetime. I know if I stay the course I'll have a tax-advantaged income stream waiting for me during my golden years. I'd urge everyone to do the same.

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