TFSA Investors: How to Earn $5,000 in Tax-Free Dividends Every Year

Description

A TFSA is a great vehicle for saving money. However, it's important to be strategic in how you go about doing so, because there are contribution limits, and if you've got a lot saved up, you can't just simply throw it all into one dividend stock.

To be able to grow your TFSA into a big nest egg involves being a bit creative and strategic. Below, I'll show you how you can make more than $5,000 every year in tax-free dividend income.

In order for this to work within a relatively safe investment that won't put your portfolio at significant risk, you'll need to be able to have access to two TFSAs and be able to come close to maxing them both out. This strategy is most effective if you and your spouse or significant other invest together. Otherwise, you'll have to settle for a lower dividend or take on a lot more risk.

The key is having the contribution room and the funds available. With more than $120,000 in investments that you can shield from taxes inside of two TFSAs, you don't have to look for aggressive, high-yielding dividend stocks that could be at risk of being cut or whose shares might be struggling. Instead, you can have many stocks to choose from where you don't even have to look for a 5% yield.

One stock that fits that criteria is **Emera** (TSX:EMA). The utility company not only offers a great dividend, but it doubles as an attractive growth stock as well. That aspect makes it potentially more attractive than a stock like **Fortis**, simply because there's so much more room for Emera to rise in value.

And inside of a TFSA, you can benefit from not just tax-free dividend income, but capital appreciation can also be shielded from taxes.

In five years, Emera's stock has climbed by around 60%, which averages out to a compounded annual growth rate of approximately 10%. That's much better than the TSX has done during that time, and the rising share price could give you another way to earn income from the stock besides just dividends.

However, it’s by no means a guarantee that it’ll continue rising. It’s a good bonus if it happens, buteven just relying on the dividend will be enough to get you to $5,000 per year.

With a current dividend yield of 4.2%, an investment of $120,000 would be enough to earn you more than $5,000 in dividends every year. And if the investment is spread across two TFSAs, then you can ensure that all of that income is able to avoid taxes.

Emera also has a strong history of dividend growth, and that means investors are likely to see their dividend income rise over the years as well. That $5,000 could become much higher years from now, and investors won’t have to do anything besides continue holding on to the stock.

Bottom line

Emera is a good, safe investment for investors that could be a great source of dividend income for the future while also having a lot of potential to rise in value as well. Rather than investing in risky stocks that are paying high yields today, investors with enough saved up can earn good returns while investing in much safer stocks like Emera.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

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