TFSA Investors: Here's How You Can Make $10,000/Year in Tax-Free Income

Description

The only thing better than living off dividend income is if it's tax-free income. And inside a Tax-Free Savings Account (TFSA), that's a very real possibility. Earning $10,000 in tax-free dividend income seems like a lofty goal, but it's one that can be realized in multiple different ways. Below, I'll show you two different approaches to reach this goal.

Method one: using multiple TFSAs

Together with a spouse, partner, or family member, you can pool a lot more investment dollars into your TFSAs to shield more dividend income from the tax man. In 2020, the TFSA limit will rise by another $6,000, and an individual who has never used the account and who has been eligible every year since its inception will be able to contribute $69,500. With two accounts, that's enough for $139,000 for a family of two. Granted, saving that amount is no small task, but if you can reach that goal, the dividend income earned from that will be well worth it.

In order to generate $10,000 in dividends with that level of investment, you will need to find a stock that pays at least 7.2% per year in dividend income. Investing in a stock that pays more than 7% can be a bit risky. However, an alternative can be to wait for a dip in a safe, high-yielding stock like **Enbridge** (TSX:ENB)(NYSE:ENB). The stock recently hiked its quarterly dividend payments to $0.81, and it is currently yielding 6.4% per year. However, the stock has generally run into resistance at around $50 per share, and if it were to fall to $45, then its yield would hit the magic 7.2% mark.

It may take some patience, but given how poorly oil and gas stocks have been performing in recent years, it may not take long for Enbridge's share price to fall. Even though the company has generally produced strong results over the years, that hasn't been enough to generate strong returns for investors. In five years, Enbridge's stock has dropped by 13%.

Method two: relying on dividend growth

The second method involves waiting for a stock's dividend to grow, and so it'll likely take a whole lot longer than the first method will. However, it'll also require less money and only one TFSA. If you invest $69,500 in 2020 into Enbridge, you'll be earning roughly $4,450 in tax-free dividend income for the full year.

But if you're planning to hold onto shares of Enbridge for several years, it's likely that your dividend payments will grow. Even though conditions in the oil and gas industry aren't ideal, that hasn't stopped Enbridge from raising its payouts. It recently increased its dividend payments from $0.738 to $0.81 for a bump up for 9.8%. If the company can continue to increase its dividends at that rate, then it would take fewer than nine years for your dividend payments to more than double and reach the $10,000 mark.

After nine years of increases averaging 9.8%, the dividend will have grown by 132%. That means that the $4,450 dividend income being earned today will become $10,322. It's a long-term play, and it's by no means a guarantee, but it's one way that you can earn a sizeable dividend in the future and it will require fewer dollars invested in the stock.

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