Dividend Stock Investors: How to Avoid Taxes

Description

Dividend stocks are ideal for a wide variety of investors. If you’re young, you can use the regular payments to buy even more stock. If you’re retired, you can put the cash towards everyday expenses. Best of all, you can flip between strategies at any time. The choice is yours.

Yet there’s one aspect to dividend stocks that remains challenging: extra taxes. Many investors are forced to pay nearly one-third of their dividend income to the government. That’s a big hit if you’re relying on those dividends to support your lifestyle or save for the future.

What if I told you that you could avoid taxes on your dividends entirely? That could allow you to retire years in advance, or extend your current retirement years into the future.

There are a few ways to generate tax-free dividends. Choosing the strategy that is the right fit is up to you.

This is a no-brainer

If you don’t have a fully maxed-out TFSA, this should be your first step. If you already have a TFSA, there may be some hidden contribution room just waiting to be utilized.

TFSAs, one of the most popular savings vehicles in Canada, permanently shield your capital from taxes. You contribute using post-tax dollars, which is money you’ve earned and already paid taxes on. All capital gains and dividends accrue tax free. Withdrawals are also tax free.

The best part of a TFSA is that withdrawals can be made at any time, for any reason. Plus, withdrawals can open up future contribution room.

This is simply the best deal in investing, but there are limits. Each year, you can only contribute a certain amount to your TFSA. The *annual* limit for 2020 is $6,000, but that's misleading because it's really the *lifetime* limit that matters. What exactly is the lifetime limit? You just need to crunch a few numbers.

From 2009 to 2012, the annual contribution limit was $5,000 per year, increasing to $5,500 per year in 2013 and 2014, and again in 2015 to $10,000. The limit fell to $5,500 from 2016 to 2018, increasing to $6,000 for 2019 and 2020.

Because TFSA contribution room begins accruing on your 18th birthday, the lifetime limit for someone who turned 18 on or before 2009 would be $69,500, the sum of each year's annual contribution limit since the TFSA was founded.

If you've never contributed to a TFSA, you can potentially deposit $69,500 *today*, generate dividends, and withdraw the income immediately with zero taxes.

If you already have money in a TFSA, consider using this account for your dividend income. Whenever you withdraw the cash payments, you'll get 100% of the proceeds. No need to worry about taxes at all.

Think you've already maxed out your TFSA? Make sure that you've actually hit your lifetime limit, not just the annual limit. Past withdrawals may have also opened up new room that you're unaware of.

Tax-free stocks

If you can't use a TFSA for whatever reason, take a closer look at stocks that qualify for the dividend tax credit. These payments are eligible for offsetting tax credits that can reduce your provincial and federal tax bill to $0.

Corporations will designate their dividends as eligible or ineligible, which denotes whether the payments qualify for tax credits. It's a case-by-case basis, but investing in dividends that are eligible for credits can mimic the tax advantages of a TFSA.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/23
Date Created
2020/02/25
Author
rvanzo