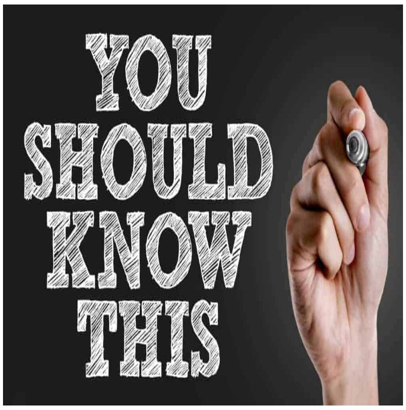

CRA Tax Tips: How to Earn $100,000 Annually and Pay ZERO Taxes

Description

Although taxes pay for services like health care, education, and roads — among countless others — I'd still bet that most Canadians don't like paying taxes. If possible, they'd like to pay zero taxes.

The easiest way to get yourself into a zero-tax situation is to simply stay under the personal exemption. Unfortunately, that'll put you well under the poverty line, since that number is only a little over $12,000 per year here in Canada.

I prefer a better solution. Here's how a Canadian couple can earn $100,000 per year without paying a nickel of tax. Sure, there are a couple catches, but you can easily achieve this over the long term. Heck, maybe some of you can even pull this off right now.

The skinny

It's not easy getting yourself into a zero-tax situation. It'll take significant capital to pull it off. We're talking at least a couple million in the bank.

The reasoning is simple. You'll need plenty of cash, because the way to pay zero taxes is to get all of your income from Canadian companies that pay eligible dividends.

The Canadian government taxes dividends in a preferred way for a few different reasons. Firstly, we want to encourage investment in local enterprises. One easy way to do so is to reward people for making that choice. Secondly, seniors tend to get a lot of their income via dividends, and most politicians actively court senior votes. And finally, despite some folks being adamantly against such policies, it's a way for wealthier Canadians to pay less taxes.

Individually, Canadians in most provinces can earn up to $50,000 per year without paying any income taxes. There are a few exceptions — like Quebec and Nova Scotia — but main provinces like Alberta, British Columbia, Saskatchewan, and Ontario have this rule in place.

All you need to do is set up your spouse with a similar portfolio that pays out an additional $50,000 per year, and you're set. You've created yourself a six-figure household income that won't pay a nickel in income taxes.

One thing a long-term investor can do to further minimize their tax bill is to contribute $6,000 to their TFSAs every year. The investment can grow, and the income can be withdrawn all without paying a nickel of tax. It might not seem like much today, but it should be relatively easy to get your TFSA quite large over time with steady saving and smart investing.

This ETF can help

Rather than choose a whole portfolio of dividend stocks, investors can take the lazy way out and buy an exchange-traded fund (ETF) that's already stuffed full of top Canadian dividend payers.

The **BMO Canadian Dividend ETF** (TSX:ZDV) is the perfect choice for investors who don't want to spend hundreds of hours scouring balance sheets or the future of businesses. This fund owns 50 top Canadian dividend stocks, the kinds of companies that have consistently paid investors for decades. In fact, the fund's dividend has slowly gone up over time as the underlying stocks slowly increase their payouts.

Top holdings include top Canadian banks, telecoms, pipelines, and various other solid dividend performers.

This ETF also offers a low management fee of under 0.4%, ample liquidity just in case you'd like to sell in a hurry, and as it stands today it has a 5.8% dividend yield. That's an excellent payout.

It also means that you and your spouse would need a little more than $1.7 million invested in this fund to generate $100,000 in true passive income.

The bottom line on this zero-taxes strategy

Yes, it really is possible to generate $100,000 per year in income while paying zero taxes. All you need is a substantial investment portfolio, plenty of dividends rolling in, and no other sources of income.

This might not be something you can pull off today, but it's a very intriguing long-term plan.

CATEGORY

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2. Investing

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1. Editor's Choice

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1. TSX:ZDV (BMO Canadian Dividend ETF)

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