Hate Taxes? Here's How You Can Make Over $1,000 in Tax-Free Dividend Income Every Year

Description

No one likes paying taxes, but there aren't many ways you can legally get around paying them. That said, there are tools available for investors that can help minimize their tax burdens in a given year. Holding an investment in a Registered Retirement Savings Plan (RRSP), for instance, can help defer taxes on any profits you earn until when you pull money out from the account.

But an even better option for some investors is the Tax-Free Savings Account (TFSA). Eligible investments in a TFSA are tax-free regardless of when you withdraw money from the account.

A great place to store dividend stocks

Dividend stocks generate recurring income, typically on a quarterly basis, and they can be a way to help grow your portfolio's value even if a stock isn't rising in value.

Take a stock like **Enbridge Inc** (TSX:ENB)(NYSE:ENB) for example. Currently, the company pays a quarterly dividend of $0.81. At a price of around $45 per share, you'd be earning 7.2% per year on your investment. Generally, most stocks pay less than 5%, and so that's a fairly high yield. But with the markets crashing this year, many stocks are paying higher than normal, including Enbridge.

Dividend yield is a function of the amount of dividends a company pays as well as its share price. And so the dividend yield can rise even if it's just the share price that drops. Shares of Enbridge are down more than 12% in the past year.

With a $15,000 investment in Enbridge or a similar yielding stock, you would earn dividends of $270 every quarter and $1,080 for the full year. And if that investment's inside of a TFSA, all that income is tax-free. It's a great way to supplement your income and not have to worry about a tax form coming in the mail and having to give some of those earnings back. Plus, if the stock were to rise in value, you could sell the stock and those gains would also not be taxable in a TFSA.

The more you have to invest, the greater you income could be. A TFSA has a cumulative limit of

$69,500 which is how much you can contribute to the account if you've been eligible every year that it's been around. If you were to invest in dividend stocks totalling $69,500 and they all paid about the same rate as Enbridge, you could earn $5,000 per year in dividend income.

And stocks generally rise in value over the long term, making it likely that you could earn even more from holding on to dividend stocks.

Investors need to be careful when buying dividend stocks

Dividend stocks can be attractive investment options, but that doesn't mean they're risk-free. We've seen many companies cut or suspend their dividend payments this year as a result of the coronavirus. Enbridge is a company that could be in danger of cutting its payouts this year as well.

An excess supply of oil combined with low demand and people not travelling has led to a low price of oil, which means less throughput on Enbridge's pipelines as well.

The company is coming off a strong 2019 where it recorded a profit of $5.7 billion. But in its most recent quarterly results, the company incurred a loss of $1.3 billion.

When investing in a high-yielding dividend stock, investors need to be careful to assess the risks involved. As appealing as a dividend may be, investors shouldn't assume it'll be there forever.

But if you've found a good, safe dividend stock that you're comfortable investing in, then a TFSA can be a great place to put it.

CATEGORY

1. Cannabis Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

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

Category

1. Cannabis Stocks
2. Energy Stocks
3. Investing

Date
2025/08/21
Date Created
2020/05/30
Author
djagielski