How to Pay $0 Taxes to the Canada Revenue Agency While Earning $5,000 in Annual Dividend Income

Description

Are you looking for a way to build up your savings without having to pay the Canada Revenue Agency (CRA) a big tax bill every year? The good news is that through a Tax-Free Savings Account (TFSA), that's entirely possible. If you've never contributed to a TFSA before and have been eligible every year, then you can contribute up to $69,500. And the government's been adding to that total on a yearly basis, meaning that the limit will likely rise in the future.

But you don't need to contribute the full amount in order to generate some great returns or dividends, as there are many high-yielding stocks out there today.

The path to $5,000 in tax-free dividends

Real estate investment trusts (REITs) are struggling this year, as an increase in bankruptcies and a poor outlook for the economy has many investors worried about how strong the businesses are today. However, with a possible vaccine just months away, things could be improving sooner than expected, and REITs could be attractive buys before that happens.

Today, **RioCan Real Estate Investment Trust** (TSX:REI.UN) is particularly attractive, as its monthly dividend payments of $0.12 are yielding 8.5% annually. On a $25,000 investment, that would generate $2,125 in dividend income. At that dividend rate, it would take just under $59,000 to earn $5,000 in dividends.

However, you don't need to invest all of your money in RioCan, and you're probably better off diversifying anyway. If you were to invest the full $69,500, you would need to earn an average yield of 7.2% in order to get to $5,000 in annual dividend income. It's a high yield, but there are also many stocks like RioCan that are paying better-than-normal yields today. The caveat, however, for investors is that you don't want to go out and just buy shares of any high-yielding stock.

I used RioCan as an example in this case, because the stock has been a fairly stable investment over the years. The REIT's produced a profit in each of the past 10 years, and it incurred just one last during the past eight periods — during the second quarter of this year, which was marred by lockdowns and where many companies were struggling. RioCan is still a strong company to invest in, and its tenants include some of the biggest retailers in the country, including **Canadian Tire**, **Bed Bath & Beyond**, and **Costco**.

While there's definitely some risk investing in REITs, there's hope that things could be getting better and buying up stocks like RioCan could prove to be a strategic move to make right now that pays off over the long term.

Bottom line

Regardless of which stock(s) you choose to invest in, there are ample options out there to get a great yield. And all that dividend income is not taxable inside of a TFSA, giving you a terrific opportunity to earn dividend income without having to worry about a tax bill to pay later. Investors also shouldn't forget that stocks like RioCan that are underperforming this year could also generate significant capital gains in the future as they recover. Like dividend income, capital gains also aren't taxable inside of a TFSA.

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