How to Earn $2,000 in Tax-Free Income Every Year

Description

Are you looking for a way to boost your annual income and not have to worry about paying taxes on it? If you have a Tax-Free Savings Account (TFSA), then all you need is to find a good investment to make that all possible.

Whether you profit from a stock's rise in value or just collect a dividend from it, the income that you earn from the investment isn't taxable as long as it is held within a TFSA (and assuming that you're not day trading within the account).

Let's take a look at how you can earn $2,000 from both a dividend stock and a growth stock.

The dividend stock

To earn a solid dividend, you need a high-yielding stock to make this possible. You want to be careful not to grab just any 10% dividend stock out there, as you could put your portfolio at risk if the company decides to slash its high payouts.

A good option is **Enbridge** (TSX:ENB)(NYSE:ENB). The pipeline company is a Dividend Aristocrat, having increased its dividend payments for at least 25 years in a row. That reputation is important, because a company with such an impressive streak will be less reluctant to cut or stop its dividend payments than a stock that's just started paying dividends.

And although its yield is fairly high at 7.6%, it's still manageable, and the company recently hiked its payouts in December. With a yield that high, you would need to invest a little over $26,000 into Enbridge to make $2,000/year in dividends. What's great is if the company continues hiking its dividend payments, that dividend income will rise in the future.

You can opt for lower-yielding stocks than Enbridge but you'll also need to invest more money to be able to earn as much in dividends. The oil and gas stock has proven to be one of the better, more stable investments in the industry today.

The growth stock

If you're a growth investor, then a stock like **Shopify** (TSX:SHOP)(NYSE:SHOP) could be a much better option for you. There's no doubt it's expensive right now, trading at more than 50 times its trailing sales over the past 12 months, but there's also a lot of growth still out there.

The COVID-19 pandemic has led to a surge in online shopping over the past year, and Shopify's sales could continue to soar. In its most recent quarter, sales of US$767 million were nearly double the prior-year total.

The benefit of investing in a growth stock is, you won't need to invest nearly as much money into it if you've found a winner. In 2020, Shopify stock nearly tripled in value, rising more than 170%. Even if you invested $5,000 into Shopify at the start of last year, your investment would have been worth more than $13,500 — for a profit of at least $8,500. In that scenario, however, you would have needed to sell the stock (or at least some of your holdings in it) in order to collect any profits from it. And so, if you want to regularly make a profit from investing in growth stocks, you need to be somewhat active.

Doubling or tripling in value is by no means a guarantee, but the good news is, even if you expect a growth stock like Shopify to rise by a modest 10% from where it is today, you would only need to invest $20,000 to make a $2,000 profit on it.

Bottom line

Depending on your strategy, either a dividend stock or a quality growth stock could help generate tax-free income for your portfolio. The key is making sure the investment is inside your TFSA.

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