
# Why You Should Raise Your Taxable Income With Canadian Dividend Stocks

### Description

Investing your money is a great way to increase your income. Why should you raise your taxable income with Canadian dividend stocks instead of interest, foreign income, and capital gains?

Canadians' employment or self-employment income is taxed at the highest rate, as are interest and foreign income. In contrast, Canadian dividend income is taxed at lower rates. Particularly, eligible Canadian dividends are taxed at the lowest rate.



Capital gains can be hard to grasp in the short term and are considered less reliable. Additionally, capital gains are taxed at a higher rate than eligible Canadian dividends. However, they don't get taxed if you don't sell your stocks. So, theoretically, you can hold growth stocks for many years without paying a dime on the growth, but it could lead to a big tax bill down the road when you finally sell shares.

## Lower your income tax by using TFSAs and RRSPs

You might have heard the advice of sheltering interest, foreign income, and capital gains in tax-advantaged accounts like tax-free savings accounts (TFSAs) and RRSPs. Go for the best risk-adjusted returns in those accounts precisely because they provide tax advantages. For example, interest rates are so low that long-term investors are better off investing in quality stocks.

If you're investing in a non-registered account, it would be a good idea to buy Canadian dividend stocks because of the low tax rate. With years of accumulation, some Canadian investors have replaced their entire work income with Canadian dividends! These investors could essentially retire if they want to.

If your only income is eligible Canadian dividends of $49,020 this year and you reside in British Columbia, you would pay $0 tax to the Canadian government!

# A bargain Canadian dividend stock with a +5% yield

**Manulife Financial** (TSX:MFC)(NYSE:MFC) is a Canadian dividend stock trading at a dirt-cheap valuation. It pays very well while investors wait for price appreciation. After raising its quarterly dividend by 18% recently, its effective yield is a whopping 5.4%! Its new quarterly dividend is $0.33 per share. Assuming it maintains this dividend through 2022, its five-year dividend growth rate would be 10%, which is awesome! Its payout ratio is estimated to be sustainable at roughly 36% this year. This payout ratio aligns with that of its peer, **Sun Life**.

At $24.43 per share at writing, MFC stock trades at a blended price-to-earnings ratio of about 7.7. One analyst can be biased, but a 15-analyst consensus forecasts the life and health insurer will increase its earnings per share (EPS) by 12.4% per year over the next three to five years. Let's be conservative and assume an EPS growth rate of "only" 8%. The stock would still be considered trading at basement prices!

If management is able to release value and drive MFC stock's valuation to more normalized levels, the Canadian dividend stock can generate total returns of about 18% annually over the next five years. Even if its valuation hardly expands, the stock can still deliver returns of about 13% in this period from a rich dividend and solid earnings growth.



**CATEGORY**

1. Dividend Stocks
2. Investing

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