Investors: The Easy Way to Pay ZERO Taxes in Retirement

Description

I don't know anybody who likes paying taxes. I know I sure don't.

As my tax bill gets bigger every year, I've developed a coping mechanism. I started viewing taxes as a by-product of success. If I paid more income taxes, it meant I was more prosperous than the year before. This is a good thing.

But the coping mechanism hasn't really helped. I still hate paying taxes each year. I bet you do, too.

Fortunately, there's a way for a retiree to avoid taxes. Yes, it's possible. Here's how a retiree can pay zero income taxes.

It's all about the dividends

Millions of middle-class Canadian investors are loading up on proven dividend payers such as **Bank of Montreal** (TSX:BMO)(NYSE:BMO), **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Inter Pipeline Ltd.** (TSX:IPL).

It's easy to see why. All three are among Canada's largest companies. Each not only has a history of paying consistent dividends, but all three have steadily increased their payouts over time. It's pretty hard to envision a world where an upstart competitor puts any of these stalwarts out of business.

Many Canadians are hoping to accumulate enough shares that they'll be able to live on dividends come retirement age. A portfolio filled with proven dividend payers offers a retiree peace of mind while having built-in inflation protection.

There's another advantage to dividends — one that many investors don't know about. They're taxed really well, especially for those folks with very little other income.

Real-life examples

Let's look at a couple of different examples of how a couple can use dividends to reduce their tax bill to almost nothing. We'll make the following assumptions:

- A retired couple
- Each earning $40,000 per year
- Income consists of $10,000 in CPP/OAS benefits and $30,000 of dividends
- Reside in Ontario

How much income tax would this couple pay?

It's not much. They'd pay just $1,200 per year in total. On $80,000 in household income. That gives this couple a tax rate of just 1.5% a year.

If this income was earned at work, it would come with a tax bill totaling nearly $10,000.

Now let's run a slightly different scenario. Instead of this couple living in Ontario, let's assume they live in B.C., Alberta, Saskatchewan, or New Brunswick. How much would they pay in taxes then?

These provinces are the holy grail. A retiree in each province would pay absolutely nothing in income taxes. And if a retiree chooses Alberta, they'd avoid provincial sales taxes as well.

It gets even better for retirees in those provinces. Couples that each earn $40,000 in dividends annually and then $10,000 in OAS or CPP income would pay a total of $906 in income taxes — a tax rate of just 0.9%.

There aren't many Canadians who can claim a sub-1% tax rate on $100,000 in household income. If you play your cards right, you can be one of them.

The bottom line

Many people say the tax system is skewed in favour of the rich. The taxation of dividend income proves this is indeed the case.

Don't fight this; embrace it instead. If you position your portfolio accordingly today, you can save thousands of dollars annually in taxes come retirement time. That extra cash can be spent on truly important things — like golf, travel, or spoiling the grandkids. Make sure important people get your money, not the government.

All that's left for you to do is to choose the best dividend stocks for your portfolio.

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2. Investing

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