



TFSA Income: How to Earn \$8,500 Tax-Free and Protect OAS Payments

Description

Canadian retirees are searching for ways to get more income to cover their living expenses.

The challenge is to find a way to put more money in your pocket without having to pay extra tax or risk a clawback on Old Age Security payments.

Aside from cash deals on unreported side hustles that could land you in trouble with the CRA, the best way to meet the extra-income goal might be through the Tax Free Savings Account (TFSA).

The current contribution limit per person is as high as \$63,500, which means a retired couple could generate tax-free income on an investment portfolio of \$127,000.

Let's take a look at two [dividend stocks](#) that might be interesting picks today.

IPL

Inter Pipeline (TSX:IPL) operates assets in the midstream segment of the Canadian Energy industry. The company owns oil sands pipelines, conventional oil pipelines, and natural gas liquids (NGL) extraction facilities in Canada. IPL also has a bulk liquids storage business in Europe.

The board has raised the dividend in each of the past 10 years, and despite ongoing challenges in the Canadian energy sector, the distribution should be safe. The Q2 2019 payout ratio was 73%, so there is solid coverage of the dividend.

The company's stock has come under pressure amid concerns that the business might be taking on too much debt to finance the completion of its \$3.5 billion Heartland Petrochemical Complex. The facility is targeted for completion in late 2021 and is expected to generate average annual EBITDA of at least \$450 million.

Management is exploring the option of selling the European operations to help fund the capital program. If a deal is announced, the stock should get a lift.

Earlier this year, IPL received an unsolicited offer to buy the company. A media report suggested the offer was \$30 per share. If that's the case, the upside potential is significant on a potential future sale. IPL currently trades at \$22 per share and provides a 7.7% [yield](#).

Power Financial

Power Financial (TSX:PWF) is a holding company with interests in wealth management and insurance businesses in Canada. It's also part owner of another holding company in Europe with investments in many of the continent's top international firms.

The Canadian assets include many of the country's well-known brands in the life insurance and wealth management sectors. Power Financial is also the controlling shareholder of fintech disruptor Wealthsimple.

The subsidiaries are performing well and Power Financial does a good job of looking after its shareholders. The company spent \$1.65 billion on share repurchases earlier this year, representing about 7% of the outstanding stock. The board also raised the dividend by 5%.

The share price has traded in a range of \$25-33 in the past year and currently sits around \$31. Investors who buy today can pick up a solid 5.8% yield.

Power Financial is an interesting option for investors who are searching for a financial stock, but don't want to take on the housing risks connected to the banks.

The bottom line

IPL and Power Financial pay attractive dividends that should continue to grow. An equal investment between the two stocks would provide an average dividend yield of 6.75%.

This would generate \$8,572.50 per year in tax-free income for a couple who held the stocks, or others with a similar yield, in their TFSA portfolios.

That's \$714 per month in extra cash flow without risking an OAS clawback!

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Author

aswalker

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