TFSA Pension Income: How to Earn $688 per Month the CRA Won't Tax

Description

Canadian retirees are searching for ways to boost their income without having to pay more tax.

This isn't easy, as most income sources in retirement are considered taxable, including company pensions, CPP, OAS, RRIF payments, and any income from a part-time job or other side gigs.

One way to get more money without handing some of it over to the tax authorities is to earn it inside a TFSA. The interest, dividends, and capital gains are not subject to tax, and when you pull the funds out of the TFSA, the full amount can go right into your pocket.

The cumulative TFSA contribution space is now as high as $63,500 per person. This means a retired couple could have as much as $127,000 in TFSA room today.

GIC rates have dropped over the past year and that has investors turning to dividend stocks to boost yield. Let's take a look at two stocks that might be interesting TFSA picks.

Inter Pipeline

Inter Pipeline (TSX:IPL) operates oil sands pipelines, conventional oil pipelines, and natural gas liquids (NGL) processing facilities in Canada. The company also has a bulk liquids storage business in Europe.

On the development side, IPL is making good progress on its $3.5 billion Heartland Petrochemical Complex. The site will turn propane into plastics and is expected to go into service by the end of 2021. IPL has invested $1.9 billion in the project, which remains on schedule and on budget.

Management is considering the sale of the European storage business to help fund the capital program. The Q3 results in the bulk liquids operations came in much better than the same period last year, so the assets should be attractive.

IPL rejected a buyout offer earlier this year that was reported to be for $30 per share. The stock currently trades at $21.50.

Investors who buy the stock today can pick up a yield of 8%.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications business with a market capitalization of $58 billion. The company's size gives it the financial firepower to make strategic acquisitions while also investing the billions of dollars needed to upgrade its wireless and wireline network infrastructure to meet rising broadband demand.

BCE's fibre-to-the-premises initiative should help protect the competitive advantage the company has in the market by controlling the physical connection to its residential and business customers.

The board raises the dividend at a steady pace and free cash flow growth continues to support the increases.

BCE's current payout provides a yield of 5%.

The stock has picked up a tailwind in the past year, supported by negative sentiment towards further interest rate hikes in Canada. The U.S. has already cut rates three times in 2019 and the Bank of Canada is expected to move in that direction next year.

Lower interest rates should reduce borrowing costs for BCE. This can translate into more cash available for dividends.

The bottom line

An equal investment between IPL and BCE would generate an average yield of 6.5%. This would create $8,255 in annual dividends on a $127,000 TFSA portfolio.

That's $688 per month, tax-free!

Diversification is always recommended and the TSX Index is home to many top-quality dividend stocks that pay above-average yield.

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