TFSA Strategy: How Retired Canadian Couples Can Earn an Extra $5,400 Tax-Free

Description

Canadian retirees are facing some serious financial challenges.

Food, rent, utilities, and property taxes are all becoming more expensive in many parts of the country. Those who prefer to travel often find it is costly to get insurance to cover a trip to someplace warm during the winter months.

As a result, it isn't a surprise to hear that people with company pensions, CPP, and OAS payments still find things a bit tight each month.

Working to earning more money might help, but the extra income could result in a claw back of Old Age Security payments. Every dollar in net world income that is earned above $77,580 in 2019 would be subject to a 15% pension recovery tax.

Fortunately, the TFSA gives retirees a vehicle to boost returns on savings while protecting OAS payments. Any income generated inside a TFSA is not taxed and the withdrawals are not counted toward the net income threshold.

GICs are a popular and safe option, but the rates offered by the banks have dropped in the past year. At the time of writing, most GIC rates barely cover the rate of inflation.

Another option involves buying top-quality dividend stocks inside the Tax-Free Savings Account. In 2020 the TFSA limit will increase by $6,000, which means a Canadian retiree would have as much as $69,500 in cumulative contribution space to invest in reliable dividend stocks.

Let's take a look at one company with a strong track record of dividend growth that might prove an interesting pick for a TFSA income fund.

TD

Toronto Dominion Bank (TSX:TD)(NYSE:TD) is a giant in the banking sector with $1.4 trillion in total assets, 90,000 employees, 26 million customers, and more than 2,300 branches.

The Canadian operations are best known to investors and the country remains the main contributor to revenue and profits. TD earned $3.3 billion in adjusted net income in fiscal Q3 2019, 55% of which came from the Canadian retail banking operations.

The U.S. division has grown significantly over the past 15 years through a series of acquisitions. The U.S. retail banking group contributed 29% of profits in Q3 and the company's TD Ameritrade partnership added another 8.6%.

The U.S. direct-trading brokerage division is being sold in an all-share transaction, so this revenue will disappear.

Management expects earnings per share to increase by 7-10% per year over the medium term, which should support ongoing dividend increases in the same range.

The board has raised the distribution by a compound annual rate of roughly 11% over the past 20 years, which is important for income investors who rely on a stream of steady passive income from their savings.

The current payout provides a yield of 3.9%.

The bottom line

TD's dividend should continue to grow at a steady pace, and the stock is a proven buy-and-hold winner for income investors. If you are searching for a reliable anchor stock for your TFSA, TD deserves to be on your radar.

A $69,500 investment in TD and a basket of other top dividend stocks with similar yields would provide a retiree with $2,710 in annual tax-free income that wouldn't count toward the OAS claw back threshold.

A couple who maxed out their TFSA space could generate $5,420 — more than $450 per month!

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