Canada Revenue Agency: How Pensioners Can Boost Tax-Free Retirement Payments

Description

Rising prices and low interest rates are a double hit for retirees who are trying to keep their budgets on track.

What's going on?

A recent report says food could cost Canadians 4% more in 2020. In addition, utility bills, school taxes, and property taxes keep rising every year; even Christmas trees are skyrocketing in price.

As a result, seniors who are relying on CPP and OAS payments are finding it increasingly difficult to cover their expenses, and the era of low interest rates is making it harder for them to squeeze out extra income from their savings.

Those who own their homes could consider downsizing to free up some equity, while others might have cash sitting in taxable accounts.

A good chunk of the money could be used to max out TFSA contributions. In 2019, Canadian residents have as much as $63,500 in cumulative TFSA contribution space. The TFSA limit in 2020 will increase by $6,000, which means that a couple would have up to $139,000 in combined TFSA room.

The benefit of the TFSA is its ability to generate income that isn't taxed. In addition, any withdrawals are not considered income, so there wouldn't be a risk of being hit by an Old Age Security clawback. The Canada Revenue Agency will impose a 15% OAS pension recovery tax on every dollar of net world income above the minimum threshold. That number is $77,580 for the 2019 income year.

How to invest?

GICs from the big banks paid about 3.5% on a five-year term a year ago. Today, getting 2.5% is a stretch. That's barely going to cover the official inflation rate.

Another option involves buying top-quality dividend stocks. There's also added risk, as the stock price could fall and dividends are not guaranteed.

However, the **TSX** is home to many companies with long track records of paying reliable distributions that increase on a regular basis.

Let's take a look at **Enbridge** (TSX:ENB)(NYSE:ENB) to see why it might be an interesting choice right now to start a TFSA income fund.

Regulated businesses

Enbridge gets the majority of its revenue from regulated assets, which normally means the cash flow is reliable and predictable.

The company's extensive oil, natural gas, and gas liquids pipeline networks serve key roles in the transportation of product from producers to their commercial customers across Canada and the United States.

Enbridge also has natural gas distribution utility businesses that ensure homes and companies have a reliable supply of fuel to heat buildings, run hot water tanks, and operate appliances such as dryers and stoves.

Finally, Enbridge is an emerging player in the renewable energy sector with interests in wind farms, solar facilities, geothermal, and hydroelectric projects.

The company just announced a big increase to the quarterly dividend. The payout will rise by 9.8% to $0.81 per share in 2020. Investors who buy the stock today can pick up a yield of 6.3%.

The bottom line

A TFSA that holds a basket of quality dividend stocks could easily produce an average yield of 5%. On a $69,500 TFSA portfolio this would generate $3,745 per year in tax-free income.

A couple could get $7,490 per year, which would be more than $624 per month.

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