



Canada Revenue Agency: How Pensioners Can Earn an Extra \$460 in Tax-Free Monthly Income

Description

Canadian retirees face a number of financial challenges these days.

According to a **Sun Life Financial** survey in 2018, 20% of Canadian retirees still have mortgage payments and 66% carry unpaid credit card debt. In addition, people are living longer, with life expectancy for Canadian men and women now at 84 and 87 years, respectively.

The extended lifespan is cited as one possible reason for higher incidents of separations among couples over the age of 50. Grey divorce, as it is commonly known, is also putting pressure on retiree finances.

Finally, the overall cost of living for many seniors feels like it is outpacing the upward adjustments for inflation in Canada Pension Plan (CPP) and Old Age Security (OAS) pensions.

The end result is that many Canadian retirees are having trouble making ends meet, even if they have company pensions in addition to the government payouts. Part-time work in retirement is becoming more common, but the added income can push people into higher tax brackets and risks triggering OAS clawbacks.

One way to get more money while avoiding an increase in income taxes is to generate the income inside a Tax-Free Savings Account (TFSA). All interest, dividends, and capital gains created in the [TFSA](#) are shielded from the Canada Revenue Agency, and the withdrawals are not included in the income calculation the CRA uses to determine potential OAS pension recovery taxes.

What investments are attractive?

These days a five-year GIC from a Canadian bank offers less than 2.5%, which is barely above recent inflation statistics. As such, [dividend stocks](#) might be the way to go.

Top stock picks tend to be industry leaders with long track records of dividend growth supported by rising earnings.

Let's take a look at **Toronto Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) to see why it might be an interesting choice to start a TFSA income portfolio.

Earnings

TD reported adjusted net income of \$12.5 billion for fiscal 2019. That's an average profit of better than \$1 billion per month!

The bank is Canada's second-largest by market capitalization and is widely cited as being the safest bet among the big Canadian banks due to its heavy focus on retail banking activities.

Investors also like TD for its balanced revenue stream. The company has invested billions of dollars in the past 15 years to build a significant presence in the United States. The U.S. retail banking operations contributed about 40% of fiscal 2019 adjusted net income.

Risk

A deep economic downturn would be negative for TD and its peers, but the bank is capable of riding out some tough times. TD is well capitalized with a CET1 ratio of 12.1%, and has the financial firepower to take advantage of weak market conditions to add strategic assets.

Returns

TD has proven to be a solid investments for buy-and-hold income investors. The company has a compound annual dividend growth rate of about 11% over the past 20 years. A \$10,000 investment in TD stock just two decades ago would be worth \$52,000 today if you pocketed all the dividends, and worth \$75,000 if the dividends were reinvested in new shares.

At the time of writing, the stock provides a 4% dividend yield.

The bottom line

The cumulative TFSA contribution limit is now as high as \$69,500 for any Canadian resident who was at least 18 years old in 2009. A portfolio of dividend stocks that provide a yield similar to TD would generate annual tax-free income of \$2,780, or more than \$231 per month.

A couple could easily pick up additional monthly income of more than \$460 without worrying about OAS clawbacks or paying higher income taxes.

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