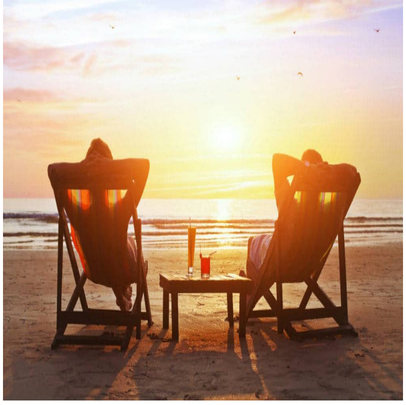

Follow These 3 CRA-Approved Tips to Pay ZERO Taxes in Retirement

Description

When you're on a fixed budget in retirement, every dollar counts. After all, nobody wants to run out of cash and head back to work as an 80-year-old. An even worse fate would be having to ask your kids or grandkids for a bailout.

When big expenses like a mortgage, commuting to work, or saving for retirement are all in the past, many retirees are finding their biggest outlay each year is paying the taxes on investment gains or RRSP withdrawals.

Naturally, these folks want to minimize that large expense as much as possible, thereby freeing up capital to spend on people who really matter.

There are a few tax avoidance tips you can use today to really minimize your tax bill come retirement time. In fact, if you play your cards right, you can use them to pay zero taxes in retirement. And you needn't worry: these tips are all Canada Revenue Agency approved.

Utilize TFSAs

This is an easy tip, but it still needs to be mentioned. Withdrawals from TFSAs are tax free, meaning that you should be transferring assets into the account even as you pass retirement age.

While it might not seem like much at first, it can really add up. $6,000 per year translates into $60,000 after 10 years, and $120,000 if your spouse does the same thing. At a 4% yield, those investments would generate $4,800 per year in tax free income.

And remember, if your TFSA is stuffed with high-quality stocks, the value of these companies will rise over time. Dividends will march higher too, creating exactly the kind of compounding effect an investor wants.

Take CPP as early as possible

Most people see a big decline in income as they retire. They're forced to rely on a patchwork of RRSPs, TFSAs, and the government, primarily through Canada Pension Plan (CPP) and Old Age Security (OAS), to make ends meet.

Things are much different if you're worrying about taxes in your golden years. What you'll want to do in this situation is minimize your pension income as much as possible, as it'll be fully taxable.

The way to do this is to take CPP as early as you can, ideally taking it the minute you hit 60. This simple move will minimize your monthly income from the government throughout retirement, which will then decrease your tax bill.

OAS is also fully taxable, but it starts getting clawed back if your retirement income exceeds $75,910 per year.

Insist on dividends

One of the best tax-avoidance strategies available to Canadian savers today is to build a portfolio of dividend-paying securities. As long as your only income consists of dividends from Canadian companies, you can earn up to $50,000 each year without paying a nickel of tax.

Add in a similar portfolio for your spouse and you could theoretically have a household income in the six figures and not pay any taxes.

This rule doesn't apply in every province — Quebec is a big outlier — but it does work in places such as Ontario, Alberta, British Columbia, and Saskatchewan.

Even if you don't put yourself in a scenario where you have 100% of your income come from dividends, having a big chunk of your retirement savings invested in Canadian stocks can still significantly lower your taxes.

Say both you and your spouse get $10,000 from CPP/OAS and $50,000 from dividends for a grand total of $120,000 in household income per year. If you lived in Ontario, you'd owe just over $2,300 combined in taxes. That's a total tax rate of just 2%. It isn't zero, but it's pretty darn close.

The bottom line

Dividends are a fantastic source of income, especially when you're retired. Their special tax situation makes them all the more attractive.

A combination of dividends, TFSAs, and smart tax planning can really minimize how much you'll have to pay to the Canada Revenue Agency in your golden years.

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