Canada Revenue Agency Taxes CPP and OAS Pensions — Here's a Better Way to Get Passive Income With a TFSA!

Description

I hate to be the bearer of bad news, but your CPP and OAS pensions are taxable. And after the Canada Revenue Agency (CRA) has had its share, you may have no other choice but to crack open your nest egg to fund that comfortable retirement lifestyle.

Unfortunately, by spending your principal rather the interest, you run the risk of running out of savings (a top fear many retirees share) and having to make do with just your CPP and OAS payments.

While you could certainly delay your retirement to 70, so your CPP payments will become more generous, it's not realistic to assume that you'll still be able (and willing) to keep up the pace into your late 60s.

Moreover, you need to consider the insidious effects of taxation with any CPP or OAS pension payments you'll stand to receive. Sadly, death and taxes are the only things guaranteed in life. Even when you've hung up the skates on the labour force, you'll still need to pay a pretty penny the taxman.

Fortunately, there is a better way to finance a comfortable retirement without running the risk of having your nest egg wither away to nothing, or OAS clawbacks.

With high-yield REITs and royalty funds in your TFSA, you'll be able to supplement your taxable pension payments with outsized (but still safe) passive income!

Unlike common stocks, REITs and royalty companies have capital return structures that allow for larger yields without excessive compromise on the safety front, making them ideal for retirees who desire to give themselves a raise.

If held outside of a TFSA, such high-income-producing investments could run the risk of triggering OAS clawbacks if your net income climbs above ~$79,000 (extra cash from a side gig?) in any given year.

If held within your TFSA, however, you'll be able to avoid the pitfalls put forth by the CRA and enjoy every penny of the distributions that land in your account.

Consider **Inovalis REIT** (TSX:INO.UN), a 7.7%-yielding play on European office real estate. Shares of the REIT are down just 4% from all-time highs at the time of writing, which suggests that the REIT is not under any significant pressures.

While Inovalis is a rare breed in that it's a super high yielder flirting with new all-time highs, investors should be aware that the distribution may be all they'll get over many years, as shares of the name have been absurdly flat over the past five and a half years.

Despite paying a vast majority of AFFOs to investors, the REIT is still able to grow quicker than its peers that possess comparable-sized yields thanks to the agility advantage that comes with being a small firm with a mere $307 million market cap. Inovalis's property portfolio may be tiny compared to many other office REITs.

Still, it's poised to grow, and income investors will have an opportunity to collect a big payout alongside a bit of growth through the years, as new additions to Inovalis's property portfolio drives down the payout ratio.

With a $150,000 TFSA, you could make nearly $1,000 per month in tax-free income with a REIT like Inovalis. Of course, it doesn't make sense to bet the entirety of your TFSA on one holding, but there are many other high-yielding securities (specifically REITs, royalty companies, and covered call ETFs) out there than can safely allow one to average an attractive (and safe) portfolio yield of around 8%.

CATEGORY

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1. TSX:INO.UN (Inovalis Real Estate Investment Trust)

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