Canada Revenue Agency: Don't Fall Into an RRSP Tax Trap in 2020

Description

Would-be retirees should realize at the onset that managing taxes doesn't stop when you retire. What is terrifying is that you might be paying higher taxes during retirement than when you were working.

If you're relying only on your Registered Retirement Savings Plan (RRSP) for retirement income, you might be setting yourself up for a tax trap. Early withdrawal or even a one-time withdrawal for a purchase or expense could push you into a higher tax bracket. The consequence is a larger tax bill and likely trigger of the OAS clawback.

To avoid falling into a tax trap, you should have other sources of retirement income. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) best fits RRSP users looking for additional retirement income.

Dividend pioneer

BMO is the pioneer when it comes to dividend payments. With a 191-year track record, this $66.35 billion bank can pay you dividends for as long as you want. Also, you lessen the chances of outliving your retirement savings.

Risk-averse investors prefer Canadian banks with lower exposure to the domestic housing market. Although most mortgages can fuel profits, the threat of a sector crash is ever present. BMO has the advantage, because its mortgage portfolio is relatively smaller compared with industry peers.

Aside from being less susceptible to a downturn in home prices, BMO has a strong international presence. This bank got a head start on U.S. soil as early as the 1980s when it acquired Harris Bank. BMO is operating in the midwestern states with close to 500 branches servicing retail and commercial clients.

BMO pays a 4.12% dividend with a payout ratio of a low 46.88%. This bank gives you a balanced exposure to the local and across the border markets.

Forever asset

CNR is already entrenched in both the Canadian and American economies. This $89.86 billion rail operator in North America has tracks connecting to ports on three coasts. It has been operating for 101 years and should be running for decades more.

No company has the strategic competitive advantage that CNR possesses. The operations are enduring, as the network requires continuous upgrades to meet growing demand. In addition to the track upgrades, the company spent on new locomotives, rail cars, and hub improvements last year.

To make operations more efficient, CNR introduced digital solutions as well. Although the capital program is a staggering $3.9 billion, CNR is a cash register. The company uses its internally generated profits to fund its investments.

CNR keeps long-term investors happy. Over the past two decades, the compound annual growth rate of the dividend is nearly 16%. The yield of 1.72% is on the low side, but you have a forever asset.

No early withdrawals

Taxes are essential aspects in the lives of Canadian investors before and during retirement. An RRSP user should be able to resist the temptation of dipping into the account. When you withdraw the money today, the amount is subject to tax.

An income stream from Bank of Montreal and Canadian National Railway should tide you over until the appropriate withdrawal time arrives.

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