Avoid Canada Revenue Agency OAS Clawbacks: 2 Steady Dividend Stocks for TFSA Income Investors

Description

Canadian retirees have few options when it comes to boosting their annual income without being bumped into a higher tax bracket or putting their Old Age Security (OAS) pensions at risk of a clawback.

Company pensions are taxed. CPP is taxed. OAS pensions are taxed. RRIF payments are taxed. Earnings from a part-time job or an income property are taxed. Investment earnings inside taxable accounts are also taxed.

Aside from receiving an inheritance or winning a few bucks at the racetrack, most retirees pay more taxes when they increase their income.

There is, however, one way to beat the system. This involves using the Tax-Free Savings Account (TFSA) to hold investments that generate steady and reliable returns. These days, the best way to make more money than the rate of inflation is to own quality dividend stocks.

The gains are not taxed when earned inside the TFSA, and any withdrawals are not counted towards net world income, which is used by the CRA to determine potential OAS clawbacks, officially known as the pension recovery tax. Canadian pensioners who have a net world income in 2020 that tops $79,054 will see every extra dollar trigger a 15% OAS clawback.

Let's take a look at two steady dividend stocks that might be interesting picks for a TFSA portfolio.

Telus

Telus is a leader in the Canadian communications industry with world-class wireless and wireline networks, providing retail and commercial clients with mobile, TV, and internet products.

Telus is known for spending considerable time and resources on ensuring it provides quality customer service. The numbers suggest the efforts are paying off for the company. Telus regularly reports the lowest postpaid mobile churn rate in the industry and continues to add new customers at a steady rate.

Growth opportunities exist in the home security and health sectors. Telus is capitalizing on demand for property monitoring services, and its Telus Health division is a leader in supplying digital solutions to doctors, hospitals, and insurance companies.

Telus intends to raise the dividend by 8-10% per year over the medium term, extending a long streak of multiple annual increase to the payout over the past decade. The current dividend provides a yield of 4.4%.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) trades at a discount to its peers, making it the cheapest pick among the big Canadian banks today.

The company is arguably a higher-risk bet due to its heavy exposure to the Canadian residential housing market, but acquisitions south of the border in the past couple of years have helped diversify the revenue stream and reduced the overall risks in the event the Canadian housing market crashes.

CIBC received 17% of adjusted net income from the American operations in fiscal 2019, and that should climb as the company seeks out additional growth opportunities in the United States.

Adjusted return on equity is about 14%, which is very good by international standards. CIBC is well capitalized with a CET1 ratio of 11.6%, meaning it has the capital to ride out a downturn.

Investors who buy the stock today can pick up a solid 5.3% dividend yield. The stock should go higher once the market becomes more comfortable with the overall outlook.

The bottom line

Telus and CIBC are top Canadian stocks with reliable and growing dividends.

If you are searching for quality picks for an income-focused TFSA portfolio, these stocks deserve to be on your radar.

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