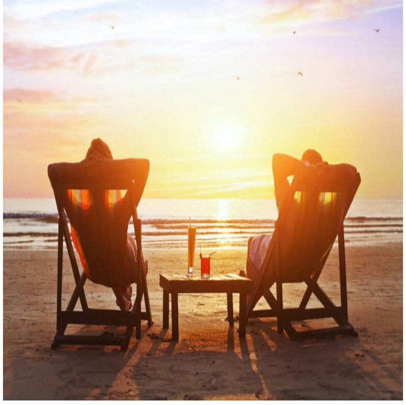

Canada Revenue Agency: How Retirees Can Increase Monthly Income by $312 and Protect OAS Pensions

Description

The Canada Revenue Agency (CRA) implements a pension recovery tax on Old Age Security (OAS) payments once Canadians hit a minimum net world income threshold.

For the 2020 tax year, that number is $79,054. Income earned above this level would result in a 15% OAS clawback on the difference between the total net world income and the minimum threshold. Once net world income tops $128,137, the full OAS would be recovered by the CRA.

This is an issue for Canadian retirees who find themselves near this level of income. While the $79,000 mark sounds high, it doesn't take long for people to hit that target if they are receiving a work pension, CPP, OAS, RRIF and other taxable income from investments, businesses, or part-time work.

One way to drive higher income without having to worry about the CRA clawback is to earn it inside a Tax Free Savings Account (TFSA). The TFSA limit increased by $6,000 in 2020 to a cumulative contribution space of $69,500 per person. That is adequate room for Canadian pensioners to create a decent income portfolio.

Fixed income investments pay very little interest these days, so many investors are turning to dividend stocks to boost their returns.

Let's take a look at two high-yield Canadian stocks that might be interesting picks right now for a balanced TFSA income fund.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure industry with assets that include oil pipelines, natural gas pipelines, natural gas storage facilities, natural gas distribution utilities, and renewable energy operations that include solar, wind, geothermal and hydroelectric facilities.

The company has streamlined its business structure in the past couple of years and sold off non-core assets to the tune of $8 billion to focus more on regulated segments of the industry.

These efforts have shored up the balance sheet, enabling Enbridge to fund its ongoing development program through internal means.

The board raised the dividend by 9.8% in 2020 and Enbridge is targeting annual average gains in distributable cash flow of 5-7% over the medium term, so investors should see ongoing dividend hikes in that range.

The current payout provides a yield of 6%.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications company with a market capitalization of $56 billion and an extensive line of businesses ranging from media assets to wireline and wireless networks.

BCE's move into television and sports franchises over the past decade added a media division that complements the traditional communications businesses by providing sources of content and increasing the company's ability to interact with Canadians across multiple platforms. BCE even has retail locations located across the country, including The Source and Virgin Mobile, in addition to the Bell brands.

BCE is investing billions of dollars to boost its network infrastructure and ensure it maintains its competitive edge. One example is the fibre-to-the-premises program that runs high-speed fibre optic lines straight to homes and businesses.

BCE has a long track record of dividend growth supported by rising free cash flow, and the company has the ability to raise prices when it needs extra cash.

BCE's dividend provides a 5% yield.

The bottom line

Enbridge and BCE are leaders in their respective industries and should continue to be solid picks for a diversified income-focused TFSA portfolio.

An average yield of 5.5% could be easily obtained through a basket of top **TSX Index** dividend stocks, which would generate $3,745 per year on a $69,500 TFSA portfolio, or $7,490 for a retired couple.

That's an extra $312 per person or $624 per couple per month that wouldn't put OAS pension payments at risk of a clawback.

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