WARNING: The Canada Revenue Agency Can Tax Your CPP and OAS. Here's How to Get Tax-Free Retirement Income

Description

The CRA takes a cut of Old Age Security and Canada Pension Plan payments, leaving retirees who are overly reliant on their social security safety net with limited financial wiggle room. While you can't shield your pension payments from the Canada Revenue Agency, you can shield passive income generated within your Tax-Free Savings Account (TFSA).

As such, it's a good idea for retirees to turn their TFSAs into a tax-free income stream, rather than hoarding cash in those pesky "high-interest" TFSA savings accounts (who are we kidding? they're actually rock-bottom interest rates). While the "4% rule" will give you a solid balance of income and long-term growth, there are companies with much higher-yielding securities that can provide you with superior growth.

Go green, get green!

Consider **TransAlta Renewables** (TSX:RNW), a 5.4%-yielding renewable energy play that has an impressive growth profile and a generous capital return structure. The company has 34 renewable power facilities (wind, hydro, and solar) across North America and Australia, with plenty of promising growth projects in the pipeline.

As a renewable energy kingpin, TransAlta is riding on ESG (environment, social, governance) tailwinds that will blow through the decade and beyond. Such tailwinds will allow TransAlta Renewables to score an outsized ROE as the company looks to meet the sky-high demand for global sustainable energy projects.

The white-hot stock has soared nearly 80% since its late-2018 bottom, a time when I recommended investors back up the truck on the stock. While I'd never advise chasing a hot stock based solely on its momentum, I do think the risk/reward trade-off on the name remains favourable given today's valuations and the fact that the stock sold off violently between 2017 and 2018. The stock just brokeout a few weeks ago and now appears technically and fundamentally sound.

At the time of writing, TransAlta Renewables stock trades at 13.1 times EV/EBITDA, 2.1 times book, and 9.9 times sales, which is pretty cheap considering the double-digit revenue growth (averaged 25% over the last three years) the firm is capable of, given the "green tailwinds" and its attractive capital structure.

Sure, the stock isn't a steal as it once was, but I still think it's a wonderful pick for income-oriented investors who don't want to compromise on growth.

Management is aiming for an 80%–85% payout ratio, and as new projects gradually come online investors should expect to be rewarded accordingly through fairly frequent dividend hikes. For such a high calibre dividend growth stock, I'd say 13.1 times EV/EBITDA is a ridiculously low price to pay.

Foolish takeaway

Your OAS and CPP payments are subject to taxation, but dividend payments from your TFSA are CRA-proof. With a dividend stock that has a generous capital return structure like TransAlta Renewables at the core of your TFSA, your tax-free income stream could have the potential to grow so that you won't mind giving the CRA its slice.

Stay hungry. Stay Foolish.

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