Canada Revenue Agency: Your CPP Pension Is Taxable Income. Use Your TFSA Instead!

Description

Canadian retirees looking to start collecting their Canada Pension Plan (CPP) payments need to be beware. The Canada Revenue Agency (CRA) takes a cut of the social security safety net because it is taxable income. The same is true for Old Age Security (OAS) income. There is no way you can avoid paying income taxes on your payments from your CPP and OAS income.

Having to pay income taxes on an already low income during retirement may leave you with zero wiggle room. While you cannot shield your CPP and OAS from the CRA, there is a way you can increase your retirement income without worrying about paying taxes on it.

Instead of only relying on income from your retirement plans, you can consider using your Tax-Free Savings Account (TFSA) to generate tax-free income for you.

The TFSA can come in handy for several financial goals, whether you want to use it as a long-term investment vehicle or as a passive-income source. As a retiree, using your TFSA as a tax-free passive-income source can provide a significant boost to your retirement income. That way, the taxes on your income through OAS and CPP payments might not affect your financial freedom during the best years of your life.

Savings account to income-generating account

Instead of hoarding cash in your TFSA, you can rely on this account type as a secondary revenue generation source. The TFSA contribution room limit stands at $69,500, as of the 2020 figures. Instead of using the contribution room for cash that will barely grow, you should consider investing in income-producing assets.

Consider investing in a stock like **TransAlta Renewables** (TSX:RNW) to take advantage of the tax-free status of the account. Instead of watching your cash grow slowly in the account, you can use high dividend yield assets to produce significant income that will increase your retirement funds.

Renewable energy is the way to go

TransAlta is an ideal stock you can consider buying and holding in your TFSA. The stock is trading for an affordable $18.15 per share and has a dividend yield of 5.18% at writing. It is an energy sector operator focused on renewable energy.

The company has more than 30 renewable power generation assets in its portfolio across Australia and North America. It has further promising growth prospects through ongoing projects. TransAlta is riding on the environment, social, and governance tailwinds, which can help the company score fantastic returns on equity in this decade and beyond, as global demand for renewable energy skyrockets.

Foolish takeaway

Your typical retirement income sources are subject to taxation. The dividend payments from your TFSA, however, are entirely free from the clutches of the CRA. Investing in a stock like TransAlta can help you make the most of the tax-sheltered status of your TFSA.

The stock has climbed by more than 84% since December 21, 2018, when it hit massive lows. Its dividend yield and potential for growth in the next few years make it a promising investment to consider for retirees looking to supplement their retirement income.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:RNW (TransAlta Renewables)

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