Retirees: 3 Ways to Benefit From CRA Tax Breaks in 2020

Description

When you're retired, every bit of savings is important. Retirees can start saving on taxes, and for this, they need to understand the tax breaks provided by the Canada Revenue Agency (CRA). The CRA has several tax breaks for senior Canadians.

Let's take a look at some of them.

Age amount

This amount can be claimed if you are 65 years of age or older and if your net income is lower than $87,750. The maximum amount that can be claimed is $7,494 (in case your income is below $37,790). This portion of your income gets a 15% tax credit.

Pension income amount and pension income splitting

As seen here, the pension income amount is a portion of your pension income that has tax credits. Retirees can claim tax credits up to $2,000 of reported eligible pension, superannuation, or annuity payments. As the federal tax rate is 15%, the maximum tax savings available is $300.

If you receive a pension, it may be eligible for a split of up to 50% of the pension income with your spouse or common-law partner. This allows higher income spouses to pay a lower tax rate because they share a part of their eligible pension income.

Registered retirement savings plan (RRSP)

RRSP contributions are tax-deductible and you can contribute to this plan till you turn 71. According to the CRA Canadians can contribute up to 18% of their income earned in the previous year or up to the annual limit of $26,500 (whichever is lower) for 2019.

Retirees need to max out their RRSP contributions and benefit from the power of compounding as well as tax deductions. So, where do you allocate funds in your RRSP? Retirees can't afford to take risks and need to diversify their portfolios.

This means that RRSP contributions need to be distributed among ETFs for bonds, equities, gold, and REITs. One such equity ETF is the **Vanguard S&P 500 Index ETF**.

This ETF aims to track the **S&P 500 Index** providing investors with exposure to top large-cap stocks south of the border. In the last five years, investing in the ETF would have returned 57%, while this figure stands at 200% in the last 10 years.

The U.S. markets have historically produced higher returns compared to Canada's equity markets. However, for retirees who want exposure to domestic stocks, they should consider investing in the **iShares S&P/TSX Canadian Dividend Aristocrats Index ETF** (TSX:CDZ).

The CDZ has a diversified exposure to a portfolio of high-quality dividend-paying companies in Canada. It screens domestic companies that have increased cash dividends annually over the last five years. Retirees can earn regular monthly dividend income by investing here. In the last 10 years, the CDZ has generated annual returns of close to 9%.

The CDZ has 96 stocks across sectors in its portfolio, providing good diversification. The distribution yield for this ETF stands at a tasty 3.93%. As expected, banking (25%) and energy (14.9%) are the two largest sectors as per exposure.

The top five holdings of the CDZ include **Alaris Royalty Corp, Inter Pipeline, Fiera Capital, NFI Group** and **TransAlta Renewables,** accounting for 2.31%, 2.3%, 2.15%, 2.13%, and 2.12% of the ETF, respectively.

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