Canada Revenue Agency: Follow These 3 Easy Strategies to Pay ZERO Taxes in Retirement

Description

After years of paying taxes during their working years, many Canadians look forward to retirement partially because it'll relieve their tax burden. After all, if their income goes down, then so will the taxes they owe.

But after adding up all sources of income for both themselves and their spouse, many investors come to realize they're still paying a bunch of taxes back to the federal government. And, since their income in retirement largely consists of investments, they're forced to write a cheque to Ottawa each year.

This doesn't have to be your fate. With a little planning today, you can avoid paying income taxes in retirement. Here's how you can keep more of your money in your pocket rather than giving it to Justin Trudeau.

Avoid RRSPs

For the most part, RRSPs are terrific vehicles that allow an investment to grow on a tax-free basis. You only have to start paying taxes once you take the cash out, which you're forced to do starting at age 71.

But some savers start to run into problems once they hit that magical RRSP mandatory withdrawal age. If they've been saving aggressively in their RRSPs, they can easily end up with more than $1 million in their RRSPs alone. That cash must come out, and it will be taxed.

If you're a few years away from retirement, the solution is simple. Crunch the numbers today, and if it looks like you'll have a big potion of your net worth in your RRSP when you retire, start putting cash into other types of accounts.

Embrace TFSAs

I've started to give some unorthodox advice to some of my fellow millennial savers. I tell them to not really worry about putting money in their RRSPs. All they need to do is max out their TFSAs, and they'll end up millionaires by the time they're ready to retire — assuming the market cooperates, that is.

Even if you're a little older, TFSAs can still be effectively utilized to minimize your tax bill. Remember, all income from TFSAs is tax free. And you can continue to contribute past age 65, meaning you can stick a portion of your assets into your TFSA even after you retire. That'll minimize your tax bill going forward, too.

Buy Canadian dividends

Thanks to various tax incentives to try and motivate Canadian investors to put their cash to work in local companies, you can get some pretty major tax breaks on Canadian dividends.

In fact, as long as your only source of income is dividends, you can earn up to $50,000 per year without paying any income taxes at all, assuming you live in Ontario, Alberta, British Columbia, Saskatchewan, or New Brunswick. You'll have to pay a little in taxes if you live in the other provinces, but not much.

Remember, you can combine this strategy with your spouse. They can also earn up to $50,000 each year tax free, which can boost your household income to six figures without paying any taxes.

To successfully implement this strategy, you'll either need to get your money out of your RRSP or just save in a taxable account. But if you take the latter approach, remember that you'll have to pay taxes on any dividends you receive during the accumulation phase of retirement savings.

If you're looking for an easy way to own dividend stocks without doing the corresponding research, I'd suggest buying one of the dividend ETFs. **BMO Canadian Dividend ETF** is my favourite; it's a fund that comes with a low management fee and a pretty enticing 4.4% yield.

The bottom line

There's no guarantee you'll completely avoid taxes in retirement; it all depends on many factors like CPP, OAS, and your various sources of income.

But you can take steps today to ensure you minimize your tax bill come retirement. Three easy ways to do so include potentially avoiding RRSPs, embracing TFSAs, and stuffing your portfolio full of Canadian dividend stocks.

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