TFSA Income 101: How Canadian Dividend Stocks Can Boost Earnings and Protect OAS Payments

Description

Canadian pensioners are trying to find ways to increase their income without having to pay more taxes.

That's not easy to do, given that most income sources are subject to income tax and also count toward the net world income calculation the CRA makes when deciding whether to implement a clawback on OAS payments.

Company pensions, CPP pensions, OAS pensions, and RRIF payments are all taxed and count as income. Interest, dividends, and capital gains generated in taxable accounts also get added to the pile. In addition, the money earned from a part-time job or a small side business is included.

Receiving income from multiple sources is the goal for retirement, but they all add up quickly and can easily push a Canadian retiree beyond the minimum threshold the CRA uses for determining OAS clawbacks. For the 2020 income tax year, that number is $79,054.

Aside from winning the lottery or hitting it big at the casino, it is difficult to find extra income that isn't taxed, but there is one popular and legal way to beat the CRA.

Holding investments inside a TFSA is a strategy being used by income-seeking retirees. The funds can be invested in quality dividend stocks to generate steady streams of payouts that can go straight into your pocket. Stocks carry more risk than GICs, but GIC rates from the banks are unattractive today.

Let's take a look at one top dividend stock that might be an interesting pick right now for an income-focused TFSA.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a North American utility company with $53 billion in assets spread out across Canada, the United States, and the Caribbean. The company gets 99% of its revenue from regulated businesses. This means cash flow should be predictable and reliable to support dividends.

The divisions include power generation, electric transmission, and natural gas distribution businesses. These might not be very exciting when compared to hot tech companies or pot stocks, but they are steady cash flow machines that deliver essential services to homes and companies.

Fortis has increased the dividend in each of the past 46 years, and the trend is expected to continue. The company is working through a five-year capital program worth $18.8 billion that is expected to take the rate base from $28 billion at the end of 2019 to $38.4 billion by 2024.

As a result, cash flow should rise enough to support average annual dividend increases of about 6% over that timeframe. This is great guidance for income investors who need steady and growing distributions from their investments.

Should you buy?

The share price has recovered from the recent dip, but still appears attractive for buy-and-hold investors who want to own top-quality dividend stocks that won't require daily monitoring of the portfolio.

Fortis owns recession-resistant businesses that shouldn't be impacted by volatility in global financial markets. In fact, the company is likely to benefit from the recent turmoil.

Why?

The U.S. just cut its interest rates, and bond yields are at record lows. The drop in borrowing costs helps Fortis fund its capital initiatives at cheaper rates. This should mean more cash flow is available for payouts to shareholders.

If you are searching for a stock to anchor a diversified TFSA income fund, Fortis deserves to be on your radar.

CATEGORY

1. Dividend Stocks
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aswalker