Canada Revenue Agency: 3 Ways to Pay ZERO Taxes in Retirement

Description

Many Canadians agree, especially folks who have done well for themselves: taxes here in Canada are just too darn high.

Sure, taxes pay for services and help out the less fortunate. Most taxpayers don't mind those things. But where many draw the line is when various levels of government are grossly inefficient with their money, choosing instead to waste cash rather than make some much-needed cuts.

It's hard to avoid taxes during your working years. After all, employment income gets taxed at the source. It's a lot easier to minimize your tax bill when you get a little older. In fact, it might even be possible for Canadians to pay zero taxes when they retire.

Yes, it's true. Here are three ways you can make that happen.

Embrace TFSAs

This advice is more for people who have a few decades to go until retirement. All you need to do to pay zero taxes during your golden years is ensure you have enough in your TFSA to cover the majority of your retirement expenses. CPP and OAS should take care of the rest.

This isn't as hard as you'd think, especially if you have a few decades left until retirement. Say you're 35 today and you put $6,000 into your TFSA every year. If you earn a 9% return, you'll end up with a TFSA worth just over $971,000.

Experts say you can safely withdraw 4% of your nest egg every year without having to worry about running out of capital. That means you can take out some $39,000 each year from your TFSA and pay zero taxes on the proceeds. That might not be quite enough for a comfortable retirement a few decades from now, but it'll be a good start.

Avoid RRSPs

RRSPs are a terrific way to save for retirement, assuming one condition. They're most effective if you don't anticipate having much other income when you retire.

You're also forced to start withdrawing serious cash from your RRSP as soon as you hit age 71. This mandatory withdrawal is 5.28% and will creep up every year. So, if you have $500,000 in your RRSP, you'd be forced to withdraw $26,400 in the first year. That money automatically gets taxed the same as employment income.

These forced withdrawals are bad news for someone looking to avoid taxes and why I'm so bullish on TFSAs instead. TFSAs offer fantastic flexibility. RRSPs certainly don't.

Embrace dividends

There are significant tax incentives for people who get a big chunk of their income via dividends. Retired folks can take this one step further. In many provinces they can make up to $50,000 in dividends and pay zero taxes on the income, assuming these dividends are their only source of income.

A couple can use this strategy to pay zero taxes on $100,000 worth of income.

Each province has its own unique tax structure, so this won't work in every province. In Quebec, for instance, you'll have to pay close to $2,000 in income taxes when embracing such a strategy. You'll also owe taxes at the end of the year if you live in Nova Scotia, Newfoundland, Manitoba, or Prince Edward Island.

Assuming a 4% portfolio yield, both you and your spouse could have nest eggs of $1.25 million and still not pay any income taxes. And even if you get beyond that, dividends are still taxed quite attractively.

It's also not that hard to get an even more attractive dividend yield. Top Canadian stocks like **Telus**, **Royal Bank**, and **Imperial Oil** all offer dividend yields in excess of 4%.

The bottom line on zero taxes in retirement

Even if you can't quite pull off paying zero taxes in retirement, investors can still use these strategies to significantly reduce their tax burdens. That results in more cash in your pocket, which is ultimately the most important thing.

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