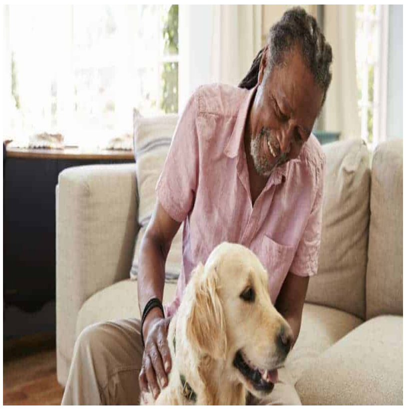

Retirees: How to Generate $4,040 in Annual Income and Pay Zero Taxes to the Canada Revenue Agency

Description

Taxes don't spare anyone. Even in retirement, you will be taxed by the Canada Revenue Agency (CRA) if your net annual income is above the given threshold limit. For example, the CRA can levy a tax on your Old Age Security (OAS) pensions if your net income is above $79,054.

The CRA clawback on your OAS starts at 15% and your OAS can be entirely recovered if your net income exceeds $128,137. So, how can you pay lower taxes to the Canada Revenue Agency?

One way is by delaying your pension payments, which will result in a lower net income. You can also generate income under a Tax-Free Savings Account (TFSA) to avoid CRA taxes. The TFSA is one of Canada's popular registered accounts as any withdrawals are exempt from Canada Revenue Agency taxes.

The TFSA contribution room for 2020 is $6,000, while the cumulative TFSA contribution limit is $69,500. Most retirees will have the entire TFSA limit that can be used to allocate quality dividend-paying stocks and benefit from a stable stream of recurring income.

Here we look at a few quality Canadian stocks that can be used to generate predictable dividend income.

Utility stocks are recession-proof

One of the safer dividend-paying stocks are utility companies. As they provide essential services and are regulated industries, utility companies generate stable cash flows making a dividend cut unlikely. Below are some of Canada's top utility companies with their respective dividend yields.

- **Fortis**:3.72%
- **Canadian Utilities**: 5.3%
- **AltaGas**: 6.2%

Telecom stocks have stable revenue

Another sector that is largely recession-proof is the telecom one. People will continue to pay their phone bills and spend on internet and wireless data. Canada’s top telecom companies are safe bets amid an uncertain macro environment.

- **Telus**: 5.2%
- **BCE Inc**: 6.1%
- **Rogers Communication**: 3.8%

Energy pipeline stocks

The beaten-down energy sector remains attractive for contrarian and income investors. Low oil prices and sluggish demand due to COVID-19 has decimated energy stocks. However, pipeline companies have a contract-based revenue model and are relatively immune to oil prices. A few of Canada’s top energy pipeline companies are:

- **Enbridge**: 8.1%
- **TC Energy**: 5.8%
- **Pembina Pipeline**: 7.9%

Canada’s banking giants

Canada’s banking companies are the lifeblood of the country’s economy. Most banking stocks have survived multiple recessions and economic downturns due to their strong fundamentals. While investors are concerned over Canada’s high unemployment rates and the rising risk of defaults, it’s only a matter of time before banks make a strong comeback.

- **Royal Bank of Canada**: 4.7%
- **Toronto-Dominion Bank**: 5.4%
- **Bank of Nova Scotia**: 6.7%
- **Bank of Montreal**: 6%
- **Canadian Imperial Bank of Commerce**: 6.5%

The above companies are large-cap Canadian heavyweights that regularly increase dividend payouts. In case you distribute $69,500 across these stocks, you can generate over $4,000 in annual dividend payments.

If we estimate an average of 5% dividend increase per year, this payout will increase to $6,200 at the end of 10 years.

As most of these stocks are trading below their 52-week highs, long-term investors can benefit from capital gains as well.

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Date
2025/09/28
Date Created
2020/07/10
Author
araghunath