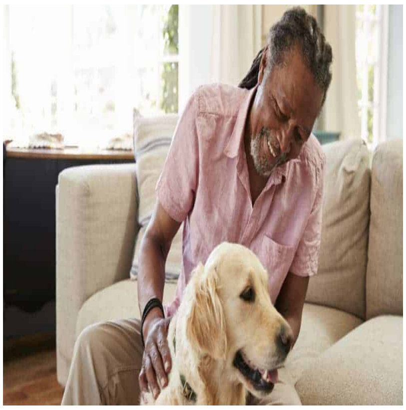

Canada Revenue Agency: How to Pay ZERO Taxes in Retirement!

Description

Wouldn't we all like to pay no taxes in retirement?

When you're retired, you expect a break after years of paying in to the system. The average Canadian works for 30 years or more. Isn't that enough time to spend paying taxes?

Unfortunately, the Canada Revenue Agency doesn't see it that way. While there are several government benefits for retirees, lower taxes aren't among them. When you're retired, you have to pay just as much tax as anyone else on regular income. That includes your pension(s). CPP, OAS, and employer-sponsored pensions are all fully taxable, as are RRSP withdrawals.

So, strictly speaking, there is no way to *totally* avoid taxes in retirement. Your pension income is taxed automatically whether you like it or not.

However, it *is* possible to pay no taxes on your *investments* in retirement. Assuming your savings are fairly modest, you can potentially shelter all of your assets in an account that can't be taxed. In this article, I'll be exploring how you can do just that.

Keep your retirement savings in a TFSA

If you have a modest amount of savings, you can keep all of them in a TFSA. By doing that, you reduce the taxes you owe to the Canada Revenue Agency.

In 2020, the maximum amount of TFSA contribution room is $69,500. If you're close to retirement age, you're entitled to all of it. So, assuming that all of your assets are worth less than that, you can move your money to a TFSA and avoid being taxed. If you do that, you'll only be taxed on pension income; all of the assets you physically control will be tax free. This won't work if your savings are greater than $69,500, but everyone can shelter a portion of their total savings in a TFSA.

How much this could save you

If you invest your savings, holding them in a TFSA could save you a lot on taxes.

This is best demonstrated by an example.

Let's imagine that you held $69,500 worth of the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in a TFSA. XIU is an index fund with a yield of about 3%. What that means is that you get $2,085 back in dividends each year. Outside a TFSA, those dividends are immediately taxable. The tax is based on a "gross up" of the amount of dividends, your marginal tax rate, and a 15% credit. With a 33% marginal tax rate, you'd pay $518 in taxes on those dividends. Likewise, if you realized a 10% gain on the shares, you'd have to pay taxes on that too. Here, the tax would be $1,146. That is, 33% of 50% of $6,950.

So, you're looking at about $1,660 in taxes here in total. Unless, that is, you hold your position in a TFSA. The TFSA spares you the taxes on both dividends and capital gains. So, you'd pay $0 in taxes, saving $1,660. Talk about a win.

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