TFSA: 2 Top Dividend Stocks for Retirees Right Now

Description

Canadian seniors can take advantage of the Tax-Free Savings Account (TFSA) to earn tax-free income and protect against the OAS clawback.

TFSA investing

The TFSA is a great tool for all Canadians, but it is particularly helpful for retirees. The cumulative TFSA contribution space in 2020 is $69,500. The TFSA limit in 2021 will probably increase by $6,000, the same amount it rose this year.

It would be great to get a high yield from guaranteed investments, but the reality in the market today is that GICs pay about 1%. As a result, many retirees are using dividend stocks to generate income on their savings. Until the TFSA came along, these investments had to be held in RRSPs and RRIFs where the money gets taxed when withdrawn, or in taxable investment accounts.

Seniors who collect the Old Age Security Pension have to watch out for the CRA's pension recovery tax. The CRA implements a 15% OAS clawback on any income earned above a certain level each year. The magic number in 2020 is $79,054. Each dollar of income above this amount results in a 15 cent clawback on next year's OAS payments.

When funds are held inside a TFSA, the CRA leaves the profits alone. That's right! You get to put the full value of investment earnings in your pocket. The income you remove from the TFSA isn't counted as part of the net world income calculation.

This saves a retiree from being hit with the OAS clawback, and keeps the investor from moving into a higher marginal tax bracket.

Best stocks for a TFSA income fund

The **TSX Index** is home to many top dividend stocks that appear reasonably priced right now and offer attractive yields. Industry leaders with strong track records of navigating through turbulent times deserve to be near the top of the list. Long histories of dividend growth supported by rising revenue and earnings are important.

Let's take a look at two stocks that might be interesting right now.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) raised the dividend in each of the past 47 years. The utility company owns more than $50 billion in assets that include power generation, electric transmission, and natural gas distribution businesses. These tend to perform well during economic slumps.

Fortis has nearly $20 billion in capital projects on the go that will boost the rate base significantly in the coming years. This means cash flow should improve enough to support average annual dividend increases of about 6% through 2025. That's great news for TFSA income investors!

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) is primarily a natural gas transmission company with pipelines that run across Canada and the United States. It also has gas storage and power generation facilities, as well as oil pipelines.TC Energy reported solid Q3 2020 results, showing the quality of its balanced revenue stream.

The firm has $37 billion in secured capital projects through 2023 and intends to raise the dividend by 8-10% in 2021 and 5-7% per year afterwards.

The stock appears cheap today for a TFSA portfolio and offers a 5.75% dividend yield.

The bottom line

The TFSA is a useful tool to help Canadian seniors earn income on their savings without putting their OAS at risk. Building a portfolio of high-quality stocks could easily provide an average yield of 5% today.

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Date
2025/08/25
Date Created
2020/11/16
Author
aswalker