



Pensioners Beware: The CRA Will Tax Your Pension Income!

Description

Are you planning to retire next year? Do you know the Canada Revenue Agency (CRA) will take a big tax bite from your pension income? Today, I will discuss how much you will get in pension and how much will be your tax bill on this pension amount.

The CRA offers you three ways to earn a pension:

- Old Age Security (OAS)
- Canada Pension Plan (CPP)
- Registered Retirement Savings Plan (RRSP)

There are other private pension schemes as well, but almost every Canadian has two of the above three pensions.

How much can pensioners get in pension payout?

OAS is a benefit that the Canadian government gives to people who turn 65 and earn less than the maximum income limit. For 2020, Service Canada is giving a maximum of \$614 per month in OAS if your income is between \$77,580 and \$126,058.

CPP is a mandatory pension, which Service Canada funds from your contributions. If you are above 18 years of age and earning more than \$3,500, your employer will deduct a certain percentage as a CPP contribution till you turn 65. For pensioners who turned 65 in 2020, Service Canada is giving a maximum of \$1,175.83 per month in CPP payout. It calculates this amount based on the age you decide to collect CPP, your contribution, and your average earnings for the lifetime.

As long as you lived and worked in Canada, you will get OAS and CPP when you turn 65. The two schemes will give you up to \$1,785 per month in pension income. You can increase this income by delaying the payout till you turn 70.

A registered retire savings plan, or RRSP, allows you to invest at your own will to get tax benefit on

your contribution. You can start withdrawing from RRSP at age 71. Here there is no withdrawal limit, but your financial institution will deduct [withholding tax from your withdrawals](#). So, if you withdraw below \$5,000, a 10% withholding tax will be deducted, and you will get \$4,500 in hand.

If you withdraw \$1,500 per month from an RRSP, you will get a net pension of \$1,350. After adding all three pensions, you will get slightly over \$3,100 in monthly pension income in 2020. This amount will increase marginally as Service Canada increases its payout every year to adjust for inflation.

How will your tax bill look like in retirement?

All the above three pensions are taxable. Assuming you don't have any other source of taxable income, your taxable income for 2020 adds up to \$37,630, and you pay a federal tax (15%) bill of \$5,645. You can reduce this bill by \$3,100 by claiming an [age tax credit](#) of \$1,145 and a basic personal amount tax credit of \$1,984.

Pensioners enjoy a tax-free pension with TFSA

You can create your own pension with the Tax-Free Savings Account (TFSA). The only age limit for TFSA is 18 years of age. You don't get any tax benefit on contributions, but your withdrawals are tax-free.

The CRA allows you to add a consolidated contribution of \$69,500 in TFSA if you have never invested in it. You can divide this money equally between high-dividend stocks **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) and **RioCan REIT** ([TSX:REI.UN](#)). Both the stocks have a dividend yield of over 8% and will surge more than 30% when the economy recovers. Your \$69,500 investment will earn you \$474 per month in dividend income.

Enbridge pays dividends from the money it gets for allowing utilities to transmit oil and natural gas through its pipelines. As oil demand fell significantly during the pandemic, its cash flow from oil slowed. When the oil demand returns, its stock price will return to the pre-pandemic level, representing a 40% upside. The company will also continue to grow its dividend between 5% and 8%.

RioCan pays dividends from the money it gets as rent from its retail tenants. The pandemic badly affected the retail industry, and many big and small merchants closed their stores permanently. This reduced RioCan's occupancy rate to 96%. As the economy recovers and new merchants rent its stores, its stock will return to the pre-pandemic level, representing a 50% upside.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
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