
The CRA Taxes CPP Pension Income: Use This 1 Strategy to Pay Less Taxes!

**Description**

A Tax-Free Savings Account (TFSA) is a popular investment vehicle in Canada. Users can contribute cash, bonds, exchange-traded funds (ETFs), guaranteed investment certificates (GICs), and stocks. All interest, gains and dividends are tax-free. Withdrawals are non-taxable too. Because of these salient features, a TFSA is also a potent tax-saving tool.



If you hate paying taxes, maximizing your TFSA is one strategy to pay fewer taxes or significantly reduce your tax bills. Canada Pension Plan (CPP) users and Old Age Security (OAS) beneficiaries use the TFSA for tax planning. The Canada Revenue Agency (CRA) considers both pension payments as taxable income. You must pay taxes on them like you would a regular income.

## Build your retirement savings

Since its introduction in 2009, the TFSA is the second alternative of Canadians to save for retirement or build a nest egg. The is first is the Registered Retirement Savings Plan (RRSP). Money growth in an RRSP is also tax-sheltered, although you pay taxes when you withdraw funds. Contributions are also tax-deductible.

A TFSA may not provide a tax deduction, but the CRA sets a contribution limit for users to maximize every year. An additional contribution presents an opportunity to earn tax-free money and thereby offset the taxes you would otherwise pay to the CRA during the tax season.

## Negate the higher CPP contributions

In 2021, the TFSA annual contribution limit is $6,000, while the accumulated contribution room is $75,500. If you're a CPP pensioner and a TFSA investor, your earnings within your account can compensate for the higher contributions due to the CPP enhancements.

The employer and employee contribution rate this year is 5.45%, so your maximum contribution is $3,166.45, or $268.45 more than in 2020. You can negate the increased deduction from your salary if you invest $6,000 in a stock that pays at least a 4.5% dividend.

## Best for TFSA investors

If I were to maximize my TFSA this year, I would choose to invest my $6,000 in **TELUS** (TSX:T)(NYSE:TU). Canada's second-largest telco pays a lucrative 4.94% dividend. The stock held steady amid the pandemic and delivered a total return of 5% in 2020. Analysts forecast the price to climb from $25.28 to $32 (+25%) in the next 12 months.

TELUS is doing well in the pandemic for apparent reasons. The business thrives during lockdowns, remote work trend, and because of the need for constant communication. Notwithstanding the pandemic, the number of wireline and wireless new net customers is increasing. Expect this $32.97 billion company to boost revenues with the 5G network further.

Because TELUS is forward-looking, investments are heavy in fibre and data infrastructure. Furthermore, it's carving a name in digital health services across the country through TELUS Health. Management aims to elevate efficiency and digitize Canada's health system. Currently, the company's telehealth platform is the country's largest.

You don't have to stress over dividend safety. The growth potentials of TELUS are plenty. It can generate stable, growing free cash flows for decades from its core telco operations, health services, and new digital businesses.



## Put your TFSA to work

Tax season is around the corner with no deadline extensions in sight. With your new contribution room in 2021, implement the TFSA strategy to reduce your tax bill.

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