Retirees: 1 Huge CRA Tax Break You Can Take in 2021!

Description

The financial life and perspective of a retiree (or near-retirees) and a working individual are quite different. When you are working, you seek growth opportunities, increasing your savings, and as your income grows, the growing tax burden, which is the natural consequence, seems more bearable.

But this outlook changes drastically when you are a retiree. The more taxable income you have as a retiree, the higher your tax bill will be, and the faster you are likely to deplete your retirement funds. The tax is one financial obligation you can't run away from, even as a retiree. But there are ways to lighten your tax burden by leveraging tax breaks that the CRA offers.

One of these tax breaks can offer you significant tax savings.

The RRSP contributions

Let's say you decided to retire at the designated age of 65 or even earlier than that. It doesn't mean you have to break your RRSP egg right away. You can keep growing your RRSP funds and contributing to them until you turn 71. That's when you have to convert it to an RRIF or take out the amount as a lump sum. But until that time, you don't just get a huge tax break from your RRSP contributions; you also get to grow your RRSP to a more substantial size.

One company where your RRSP stocks can find a good home is **NorthWest Health Prop REIT** (TSX:NWH.UN). This REIT focuses on healthcare properties, including both medical offices and healthcare facilities. The current portfolio has 189 properties in five countries: Canada, Germany, Brazil, Australia, and the Netherlands. This geographically diversified portfolio offers more stability and exposure to more profitable avenues than a locally concentrated REIT would have.

It's also a steadily growing stock, and in the last five years, the share price has grown 52%. But that's not the highlight of this stock. The honour goes to the juicy 6% yield. If you put in one year's RRSP contributions into this company, say $18,000 (based on a yearly income of $100,000), you can expect $1,080 in dividend income accumulating in your RRSP every year.

A high-yield stock for your TFSA

Unlike the RRSP, which stays by your side only till you turn 71, the TFSA is more of a "till-death-do-us-part" account. So, even as a retiree, you can contribute and benefit from your TFSA. Ideally, you can use it to start a passive income, probably using a high-yield aristocrat like **BCE** (TSX:BCE)(NYSE:BCE). The 12-year-old aristocrat is still continuing with its dividend-growth streak, despite pushing through the appropriate payout ratio.

The company currently offers a mouthwatering 6.3% yield. So, if you can divert about half of a fully stocked TFSA ($35,000) into this company, you can create a monthly income stream of about $184. And the amount will (hopefully) keep growing over time. The company saw revenues decline in the last few quarters, but BCE still holds a dominant position in the telecommunication sector, and once the economy properly re-opens, and 5G's reach expands, BCE might rise again.

Foolish takeaway

Deciding when to retire can have a significant financial impact on your retirement life. But that's not the only important decision you need to give serious thought to. You also have to decide when to start your CPP and OAS pension, because deferring them can increase the amount of your retirement pension substantially. You need to work out how it settles with your retirement savings and other taxable income (mandatory RRIF withdrawals and company pension).

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TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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