Retirees: 2 Top TFSA Income Stocks to Avoid the OAS Clawback

Description

Canadian seniors who collect Old Age Security (OAS) pensions are searching for ways to boost income without being hit by the OAS clawback.

TFSA strategy

One way to get more investment income without triggering the OAS pension recovery tax is to generate the earnings inside a TFSA.

Retirees have as much as $75,500 in cumulative TFSA contribution room in 2021. This provides a lot of space to build an income portfolio to complement company pensions, CPP, OAS, and other taxable sources of income. The OAS clawback kicks in at net world income of $79,845 for the 2021 tax year. At that point, the CRA implements an OAS recovery tax of 15% on every dollar of earnings above that amount.

The impact can be significant for seniors with high income, so it makes sense to move investment funds from taxable accounts to the TFSA.

Let's take a look at two top Canadian dividend stocks with above-average yields that might be interesting picks today for a TFSA income portfolio.

Why Enbridge stock looks like good buy right now

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure industry with oil pipelines, natural gas transmission, gas storage, gas distribution, and renewable energy assets.

Throughput on the oil pipelines dropped last year due to the crash in fuel demand, but the situation is improving, and the system should be back at its normal volumes once people start heading to the office again and airlines restart flights.

Enbridge is working on $16 billion in secured capital projects. The news assets will help boost distributable cash flow by 5-7% per year over the medium term. Dividend increases should be in the same range. That's great news for income investors who already get a generous payout from Enbridge.

The stock looks undervalued today near $46 and provides a 7.25% dividend yield.

Bank of Nova Scotia deserves to be in your TFSA

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is a great stock for investors to get exposure to emerging market growth through a solid Canadian company.

The bank spent billions of dollars in recent years to build its business in Latin America with a core focus on the Pacific Alliance countries of Mexico, Peru, Chile, and Colombia. The four countries have been hit hard by the pandemic, but the situation will improve, and these markets offer attractive growth potential.

Bank penetration is less than 50% across the combined population base of more than 225 million. As middle-class wealth expands, the demand for loans and investment products will increase. Surging oil and copper prices should also boost the economies of the four countries in the next couple of years to help offset the damage from the pandemic.

Bank of Nova Scotia stock isn't as cheap as it was last year, but still looks like a good buy for long-term income investors. The bank should get the green light to restart dividend hikes and share buybacks by the end of the year. Investors could see a large boost to the payout when that happens. Bank of Nova Scotia has excess capital to deploy.

At the time of writing, the stock provides a yield of 4.6%.

The bottom line on TFSA investing

Retirees can use the TFSA to build large income-generating portfolios that won't bump them into a higher tax bracket or put OAS payments at risk. Enbridge and Bank of Nova Scotia are top Canadian dividend stocks to consider for the fund. They pay attractive distributions that should continue to grow in the coming years.

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