Retirees: 1 Top Dividend Stock for TFSA Income

Description

Canadian seniors are using their TFSA to generate tax-free passive income to complement their other pension earnings.

TFSA overview

The government created the TFSA in 2009 to give Canadians another savings tool along with the RRSP to set cash aside for a variety of financial goals. Since its inception, the cumulative maximum TFSA contribution limit has grown to $75,500. It increased by $6,000 in 2021.

The space is now large enough for retired couples to earn a decent tax-free stream of income. The TFSA offers two key benefits for seniors. First, the income doesn't bump them into a higher tax bracket. Second, the CRA doesn't use the TFSA earnings when calculating net world income used to determine the Old Age Security (OAS) pension recovery tax.

Retirees who collect OAS need to watch their total taxable income level each year. As soon as it hits a minimum threshold, the CRA implements a 15% OAS clawback on every dollar above that amount. In the 2021 tax year, the number to watch is $79,845.

A person who receives a company pension, CPP, OAS, and income from additional taxable sources could quite easily hit the $80,000 mark each year. If the TFSA room is available, it would make sense in this case to move investments from taxable accounts to the TFSA.

GIC rates don't even cover inflation these days, so many retirees are using dividend stocks to boost returns. Owning shares comes with risks, but top TSX stocks with long histories of dividend growth tend to recover quickly from market downturns.

Let's take a look at one top dividend stock that might be an interesting pick today for a TFSA focused on passive income.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is the third largest of Canada's big banks with a market capitalization of $95 billion. The bank's share price has underperformed its peers in 2021 but could catch up next year, as the global economic recovery kicks into gear.

Bank of Nova Scotia's international operations are primarily located in Mexico, Colombia, Peru, and Chile. The pandemic hit these countries hard, but the situation is improving, and the four members of the Pacific Alliance trade bloc offer attractive long-term growth potential for the bank.

Bank of Nova Scotia remains very profitable, even during the current challenging environment. The bank has a strong capital position and has indicated it might make strategic acquisitions in the United States as part of its growth plan.

The stock is off the 2021 high and currently offers a 4.6% dividend yield. Distribution growth should resume next year when the government is expected to give the banks the green light to restart payout increases.

A popular investing strategy involves buying the Canadian bank with the worst performance at the end of each year. Whether or not the theory has merit is up for debate, but Bank of Nova Scotia appears attractive at the current share price.

The bottom line on TFSA passive income

The TFSA is a great tool for retirees to earn tax-free income that won't put OAS pension payments at risk. Bank of Nova Scotia offers an attractive yield today and deserves to be part of a diversified dividend portfolio.

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