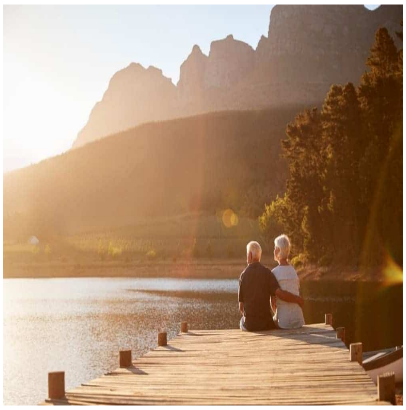

Worried About OAS Clawback? Here Are 2 Neat Tricks to Avoid the Claw

Description

Everybody hates taxes. If you're approaching 65 and looking at receiving your Old Age Security (OAS) pension, you might be worried about the OAS recovery tax, also known as the OAS clawback.

Here's how the clawback works: for every dollar you have in 2018 income over $75,910, you will get 15% of that deducted from your OAS pension.

If there is no clawback, the amount of OAS pension you can receive is $613.53 per month.

You'd probably like to avoid that clawback and receive your full OAS amount. Here are two neat tricks that could help you pay less OAS taxes.

Split pension income with a spouse

If your spouse earns significantly less income when you turn 65 than you, you can look into splitting your pension income. You can split pension income, Registered Retirement Income Fund income, annuity payments, and CPP income with your spouse. This could push you below the $77,580 threshold.

Withdraw your RRSPs before you turn 65

Depending on your financial planning and how much you have in your RRSP, you could consider withdrawing it before you turn 65. By doing so, you can declare most of your RRSP income before you turn 65, and this could have your income fall below the clawback threshold.

For example, if you've calculated that you'll be making $100,000 per year, but $30,000 of that will be RRSP income if you have already withdrawn that RRSP before you're 65, that income won't be counted in your OAS clawback amount.

Of course, by doing this, you will be losing out on the tax deferral benefit of your RRSP. You have to calculate whether the amount you will save on OAS clawback is worth more than the tax deferral from your RRSP.

Invest in dividend stocks

If you decide on taking out your RRSP as income before 65, you'll need something to invest in. An excellent choice for retirees is **Fortis** (TSX:FTS)(NYSE:FTS).

Fortis is a leader in the North American regulated gas and electric utility industry. The company enjoys highly regulated cash flows. Over 94% of its earnings coming from regulated geographically diversified utilities.

Fortis can be a core holding of a retiree needing income. As an established and regulated utility company, Fortis has been generating tremendous revenue and profit from its long-term contracts.

The stock is coveted and highly defensive with an extremely low beta of 0.14. Fortis is a low-risk investment offering that's a great candidate for a core retirement portfolio.

The company rewards long-time investors with a sustainable and stable income stream. At present, the dividend is 3.61%, but Fortis could increase the payouts moving forward. In its most recent quarterly, Fortis reported net earnings of $287 million, an increase from $277 million last year.

Conclusion

Fortis is just one example of stock you could invest in if you decide to take out your RRSP early to save on OAS taxes. Between this method and splitting your income with your spouse, you stand a good chance of minimizing your OAS clawback.

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