A Top Income Strategy for Retirees to Protect OAS Payments From CRA Clawbacks

Description

Canadian seniors receive income from a variety of sources and most of those payments have to be shared with the Canada Revenue Agency.

Company pensions, CPP, and OAS payments are all added into the taxable-income pot. Payments from an RRIF that is created from RRSP funds are also taxed. In addition, seniors pay tax on income generated by investments held in taxable accounts. Those who also have money coming in from a part-time job or a business get hit as well.

The thing that really upsets some retirees is the fact that the Canada Revenue Agency will claw back part or all of their Old Age Security payments if their net world income is too high. For the 2019 tax year, the minimum threshold is $77,580. Every dollar earned above that amount is subject to a 15% pension recovery tax. If income tops $126,058, the full OAS is clawed back.

Now, some people might think $77,000 is hard to reach, but it doesn't take long to top this amount if you have a decent work pension and are receiving income from all the other sources.

As a result, it makes sense to try to protect as much investment income as possible. One strategy that is becoming popular is to generate it inside a Tax-Free Savings Account (TFSA).

The TFSA is now a decade old and the cumulative contribution limit has grown to the point where it can be a useful tool for managing retirement income while reducing taxes.

Beginning in 2020, the TFSA limit will increase by $6,000, bringing the cumulative total to $69,500. That would give a retired couple as much as $139,000 in investment room to boost earnings without paying more tax or worrying about OAS clawbacks.

Which investments are the most attractive?

Seniors are searching for reliable income streams that will ideally increase every year and outpace inflation. This eliminates GICs today, so dividend stocks are probably the best game in town.

Let’s take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to see why it might be an interesting choice to get the TFSA income started.

Earnings

TD is a big, green profit machine.

The company reported adjusted net income of $12.5 billion in fiscal 2019, representing a 3% increase over 2018. A cool $1 billion in profits per month for the bank might seem like a lot and customers who pay fees on their accounts and transactions might be a bit upset to hear about such large profit numbers.

Investors in TD shares, however, are happy campers.

The bank is widely considered to be the safest pick among the large Canadian banks due to its heavy focus on retail banking activities. In addition, TD has built a significant presence in the U.S., providing investors and the bank with a nice hedge against a possible economic downturn in Canada.

The U.S. retail banking operation contributes nearly 30% of TD’s net income.

TD is investing heavily to stay competitive in a rapidly changing financial world. Its digital platforms were used by 13.4 million customers in the most recent quarter. There were 5.3 million clients in Canada that used the mobile banking services and 3.3 million in the United States. The use of digital platforms helps reduce costs and can speed up service, resulting in better customer satisfaction.

For those who still prefer to go into the branch, TD’s network is widespread and in most cities, has branches open seven days a week.

The company has a great track record of increasing its dividend the current payout provides a 4% yield.

The bottom line

TD should be a solid pick to anchor a TFSA income fund. The TSX Index is home to many top-quality dividend stocks and an average yield of 4% is easily obtained.

With a combined portfolio of $139,000, a retired couple would generate $5,560 per year in tax-free income.

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