Canada Revenue Agency: Avoid the 15% OAS Clawback With This Simple Trick

Description

Recipients of the Old Age Security (OAS) pension should be aware that for every dollar you earn above the income threshold, there is a corresponding 15% OAS recovery tax. This tax on top of your current tax rate is notoriously known as the OAS clawback.

Since losing the amount to taxes matters to a retiree, there are ways to limit, if not avoid the clawback altogether. One simple trick is to use your Tax-Free Savings Account (TFSA) to the hilt. The investment income you will generate from your TFSA is non-taxable. Likewise, it would not count toward your net income.

The strategy requires selecting income-producing assets that have the potential to minimize the effects of the clawback significantly. **Laurentian Bank** (TSX:LB) and **Capital Power** (TSX:CPX) are two of the generous dividend-payers on the **TSX**.

Counterbalance

The seventh-largest bank in Canada is a common investment choice of retirees and TFSA users. Although Laurentian Bank is only a regional bank, the dividend yield it pays is higher than the Big Five banks.

Besides, this $1.89 billion lender is also a Canadian Dividend Aristocrat. Over the last three years, Laurentian Bank has been averaging nearly $1 billion in revenue and $201 million in net income.

Its dividend track record speaks for itself. Laurentian is proud of its 11-year dividend growth streak as well as its 5.11% dividend growth rate over the past five years. This bank stock currently yields a fantastic 6.03%.

Assuming your TFSA contribution room is the full $69,500, which is the accumulated contribution room since inception, this bank stock can generate $4,190.85 in annual tax-free income. Monthly, that would translate to $349.84. The amount is a solid counter to the OAS clawback.

Defensive asset

Capital Power is one of the attractive buys in 2020. The future of this $3.6 billion independent power producer (IPP) has never been brighter.

Growth opportunities are on the horizon, beginning with the first-ever commercial-scale carbon nanotube facility in Southern Alberta; it will be operational in 2021.

If a recession worries you, Capital Power is a classic defensive stock. The company is a wholesale power generator that produces energy in North American communities. People in its area of coverage are not likely to cut down on food, daily necessities, and basic utilities such as electricity in a downturn.

The business model is simple and low risk. Because the long-term contracts are with investment-grade clients, Capital Power derives stable and growing cash flows. If you use your 2020 TFSA annual contribution limit of $6,000 to invest in this stock, your tax-free yearly earnings would be $337.20.

Given the company's annual growth guidance of 7% and 5% through 2012 and 2022 respectively, there's a possibility of a dividend increase.

Equalizers

Maximizing the tax-free benefits of the TFSA is the best strategy to avoid the 15% OAS clawback. With Laurentian Bank and Capital Power paying higher-than-average dividends, you have equalizers in your portfolio.

Your potential investment income can offset the money lost to the CRA. Furthermore, you even have the option of building a mini pension.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)
2. TSX:LB (Laurentian Bank of Canada)

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