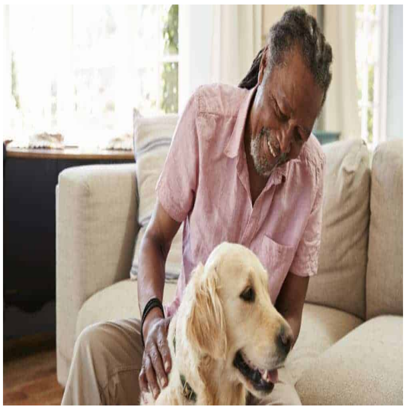

CRA Clawback: How Retirees Can Earn an Extra $2,780 Per Year and Protect OAS Payments

Description

Canadian pensioners are always searching for ways to squeeze extra income out of their savings without having to worry about a big tax hit.

The situation becomes particularly tricky when income breaches the threshold the CRA uses to determine the OAS pension recovery tax. For the 2020 tax year, the magic number is $79,054.

At this level of net world income, collectors of OAS will be hit with a 15% clawback on every dollar earned above the threshold amount.

Readers might think that getting above $79,000 a year is rare, but it is actually easy to reach when people have a decent employment pension and are also receiving CPP and OAS. In addition, RRIF payments could be part of the mix, as would any income from taxable investment accounts, rental properties, or a part-time job.

Making a few bucks at the race track or winning the lottery could solve the problem, but a better way to reliably boost income and not put OAS payments at risk is to earn the income inside a TFSA.

All interest, dividends, and capital gains generated inside a TFSA are tax-free and any withdrawals from the account are not used in the net world income calculations.

Let's take a look at two dividend stocks that might be solid picks to anchor a diversified TFSA income portfolio.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is Canada's fourth-largest bank by market capitalization. As a result, investors often overlook the stock in favour of the larger peers when adding a bank to their portfolios.

The stock probably deserves more respect. Bank of Montreal has paid a dividend every year since 1829. That's right — nearly two centuries of steady payouts for investors.

The bank has done a good job of navigating the challenges that have hit the financial markets over the past 190 years and should continue to be a solid investment.

Bank of Montreal has a balanced revenue stream coming from personal banking, commercial banking, and capital markets activities. The large U.S. division provides a nice hedge against potential trouble in the Canadian economy, and the bank is less exposed to the Canadian housing market on a relative basis than some of the other financial institutions.

The stock currently offers a 4% yield.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) is the new name for TransCanada. The board decided to make the change last year to better reflect the company's overall business.

TC Energy is a leading player in the North American energy infrastructure sector. It is best known for its extensive natural gas pipeline networks and gas storage facilities. TC Energy also has oil pipelines, including the ongoing development of Keystone XL. The project has run into years of delays but is slowly moving toward a possible completion.

In total, TC Energy is working on $30 billion in capital projects. The large portfolio should support steady revenue and cash flow growth as the new assets go into service. The company plans to raise the dividend by 8-10% through 2021, and steady increases should continue beyond that timeframe.

The stock has enjoyed a nice rally in the past year, but more gains should be on the way, especially if Keystone XL gets finished. At the time of writing, the dividend provides a 4.3% yield.

The bottom line

Bank of Montreal and TC Energy top-quality stocks with attractive dividends and should be solid picks for a diversified TFSA income portfolio. Getting an average yield of at least 4% should be easily achieved.

This would provide $2,780 in annual tax-free income on a $69,500 TFSA, which is the current cumulative contribution limit.

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