



Retirees: Avoid the 15% OAS Clawback in 2020 With These 2 Tricks

Description

The Old Age Security (OAS) program serves as the basic pension in Canada. It goes to almost all Canadians over 65 years old or people who have lived in Canada for at least 10 years over the age of 18. This cornerstone of the retirement income system in the country, however, has one feature that hurts retirees.

The OAS clawback gives retirees chills, because the CRA levies an additional 15% tax on your current marginal tax rate. Assuming you're over 65 and expecting to have an income of \$80,500 in 2020, you'll be losing some of your OAS, because your income is over the threshold of \$79,054 by \$1,446.

By going above the threshold, you'll lose \$216.89 per year of OAS, or \$18.07 per month. The higher your income is from the threshold, the higher your losses will be due to the clawback. Since the OAS clawback has a financial impact, regardless of amount, you can resort to two tricks that could help you avoid the clawback altogether.

Defer your OAS

You have the option to defer your OAS payments to as late as 70 years old. If you think that by the time you reach the age between 65 and 70, your income will go beyond the threshold, this strategy should do the trick.

OAS deferral will increase your OAS benefit by 0.6% for every month after your 65th birthday. The strategy works well, too, if you plan to continue working past 65 years old.

Use your TFSA as a counterbalance

Using your TFSA and investing in dividend stocks are the ideal solutions to minimize the effect of the OAS clawback. The [tax-free income](#) you will earn can compensate for the OAS payment reduction.

From my example above, you would only need to invest your \$6,000 2020 TFSA contribution limit in a

stock that pays at least a 4% dividend. The annual tax-free dividend will come out to \$240, or \$20 monthly.

Nothing can be more dependable than a Dividend Aristocrat like **Toronto-Dominion** ([TSX:TD](#))([NYSE:TD](#)). Whether the market is rising or declining, you'll receive quarterly dividends from the second-largest bank in Canada.

I'm inclined to say that "TD" means [total dependability](#). During the 2008 financial crisis, this \$134.35 billion banking institution was the only one standing. Nearly every company was struggling to stay afloat. TD, however, was not caught in the whirlwind. The bank had revenue growth and profits to report.

TD's dividend payment history of more than 100 years is a mean accomplishment that investors should take into account. This blue-chip stock delivered a total return of 727.95%, including dividend reinvestment, in the past 10 years. Today, it yields 4.01%, but the bank commits to raising dividends yearly.

Defuse the impact

If you want to fortify your TFSA, you can add any one of the other Canadian big banks. Just like TD, **Royal Bank of Canada**, **Bank of Nova Scotia**, **Bank of Montreal**, and **Canadian Imperial Bank of Commerce** have been paying dividends for over 10 decades.

When your income is likely to put you over the OAS threshold, maximizing your TFSA with an investment in TD can defuse the impact of the 15% clawback.

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