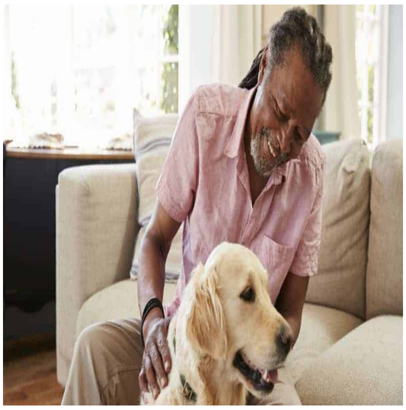

# Canada Revenue Agency: How to Generate $695 in Extra Monthly Pension Income and Avoid OAS Clawbacks

## Description

Canadian retirees are searching for ways to boost their annual income without getting hit by the CRA.



The situation is particularly relevant for seniors who are receiving the Old Age Security pension. Under the CRA rules, as soon as net world income breaks above a minimum threshold, a pension recovery tax kicks in on OAS payments. In the 2020 tax year, the magic number is $79,054.

Every dollar of income above that level triggers a 15% OAS clawback until income reaches $128,137, where the full OAS pension would be hit with the pension recovery tax.

Getting to the $79,000 point isn't too difficult if you have a decent company pension and are receiving full CPP and OAS payments. Seniors might also be receiving RRIF payments or picking up some extra cash on investments held in taxable accounts.

One way to avoid being bumped into a higher tax bracket and to stay out of the grasp of the OAS clawback is to generate income inside a Tax-Free Savings Account (TFSA). The TFSA contribution limit increased by $6,000 in 2020 to bring the total maximum space to $69,500 per person.

Let's take a look at two high-yield dividend stocks that might be interesting picks for a balanced TFSA income portfolio.

# IPL

**Inter Pipeline** (TSX:IPL) is a niche player in the Canadian midstream energy infrastructure sector with natural gas liquids (NGL) extraction facilities, conventional oil pipelines, and oil sands pipelines. The company also has a bulk liquid storage business in Europe with operations in a number of countries, including the U.K., Denmark, Germany, the Netherlands, Ireland, and Sweden. The terminals have combined storage capacity of 37 million barrels.

IPL is considering a sale of the European business to help fund the Canadian capital program that includes the $3.5 billion Heartland Petrochemical Complex. The site is scheduled for completion in late 2021 and should generate average annual EBITDA of at least $450 million.

The board held the dividend steady in 2019 after a decade of annual increases. Dividend growth should resume once the Heartland Complex is complete. In the meantime, investors can pick up a 7.6% yield.

The distribution should be safe, and the stock price could get a nice boost if IPL announces a sale of its bulk liquid storage division.

## BCE

**BCE** (TSX:BCE)(NYSE:BCE) has a long history of delivering reliable dividend growth and above-average payouts. That makes it a favourite pick among retirees who are seeking steady income.

The company has evolved from a simple provider of phone services to become a giant in the Canadian communications industry with media, wireless, and wireline assets.

BCE continues to invest billions of dollars in network infrastructure upgrades to meet growing demand for broadband services. Its fibre-to-the premises initiative ensures BCE maintains its technological edge while reinforcing its wide competitive moat.



The addition of a television network, specialty channels, radio stations and sports franchises provides BCE with content and access to a large part of the Canadian population. These assets, along with the mobile, TV, and internet services, enable the company to connect with most people and businesses in the country on a regular basis.

BCE generates solid free cash flow, and investors should see annual dividend growth bounce along around the 5% level. At the time of writing, the stock provides a 5% dividend yield.

## The bottom line

An investment split between BCE, IPL, and other high-quality, high-yield income stocks in the TSX Index would easily create a balanced income portfolio that could generate an average yield of 6% on the investments. That would provide $4,170 in annual tax-free income in a $69,500 TFSA.

A retired couple could earn an extra $8,340 per year. This translates into $695 per month, which would not impact your OAS or put you in a higher tax bracket.

**CATEGORY**

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**TICKERS GLOBAL**

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