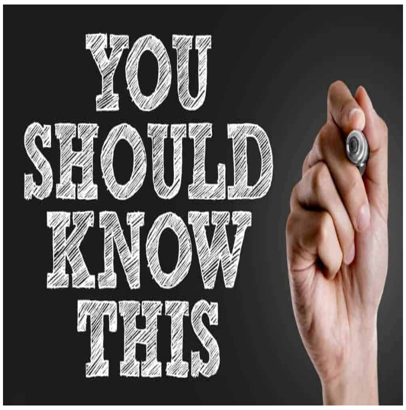

FOAS Clawback: 2 Simple Ways to Avoid the 15% OAS Tax

Description

The Old Age Security (OAS) pension is a near-perfect retirement plan if not for the recovery tax or the infamous clawback. If you're 65 years old or older, your income in 2020 should not go beyond the set income threshold of $79,054. Otherwise, it will trigger the clawback.

You'll risk reducing your OAS payment by 15% or 15 cents for every $1 above the threshold. Rather than complaining, you can try two simple ways to avoid the clawback so it won't hurt as much.

Use a tax-free investment vehicle

A registered investment account like a Tax-Free-Savings Account (TFSA) should keep your income from soaring beyond the threshold. If the bulk of your investment income is in a tax-free account, not a single dollar will constitute a taxable income.

Consider TFSA withdrawal

Whenever you have an immediate need for cash, you should withdraw from your TFSA. All withdrawals from this account are tax-free and therefore totally exempt from the clawback.

Make sure the assets you hold in it are wealth builders like **Suncor** (TSX:SU)(NYSE:SU) and **Emera** (TSX:EMA). Also, the higher the investment, the higher would be your tax savings.

Industry forerunner

Suncor easily makes the grade as a core TFSA holding. This $66.8 billion integrated oil and gas company is an industry leader. Similarly, the stock has been paying dividends for the last 15 years. The streak is non-stop even when oil prices are getting a beating.

This dividend all-star can be the perfect hedge against oil price volatility. As a sector front runner, Suncor continues to grow its energy portfolio. By adding more strategic assets, including renewable energy, the company expects annual growth of 9.5% in the next five years.

With Suncor, you gain the best of both worlds. It can sustain paying 3.81% dividend (with a low payout ratio of 50.94%) and appreciate in the next 12 months. Analysts are forecasting a potential climb of 33.45%.

Finally, you'll be in the company of Warren Buffett, as Suncor is only one of two energy stocks in **Berkshire Hathaway's** portfolio.

Less risk

In theory, a security with a beta value of less than 1.0 is less volatile than the market. As Emera carries a low beta of 0.25, your TFSA stock portfolio is better with a low-risk stock than without it.

This $14.4 billion diversified utility company stood its ground during the 2008 financial crisis. Many stocks were crashing during the meltdown, but not Emera. The price even soared by almost 17% from early 2008 to late 2009. For the last two decades, Emera's total return was a whopping 977.79%.

A dozen analysts covering Emera are bullish. They predict this utility stock to gain by as much as 20% in a year. With its 4.21% yield, you could be looking at better-than-market returns in 2020.

Emera is responsible for the generation, transmission, and distribution of electricity throughout North America and in Caribbean countries. Its operations will continue, as demand for utility energy services are not likely to decline for years to come.

Tax-free gains vs. OAS tax

Retirees can't make the clawback disappear, as it's part and parcel of the OAS. The tax-free gains from the stocks invested within the TFSA can effectively cancel out the effect of the 15% OAS tax.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:SU (Suncor Energy Inc.)
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Date

2025/09/14
Date Created
2020/01/27
Author
cliew