CRA: 4 Easy Ways to Minimize Your OAS Clawback

Description

When it comes to taxes and retirement planning, you want to be as efficient as possible with a strong financial plan and income-generating investments to provide you with spending capital.

It also involves tax planning so you can organize and plan your finances to receive as much income as possible and pay as little in taxes as you can.

All too often, investors focus on stock picking and forget to consider long-term tax consequences, which could lead to a potential clawback from your OAS payments.

Here are four tips investors can use to maximize income and minimize your OAS clawback.

Understand your sources of income

Knowing where your money comes from and how that money is taxed will play a huge part in planning for retirement and when to take your OAS.

As different types of income are taxed differently, it's important to know where the source of your current and future income in order to build an optimal financial plan for retirement.

If the majority of your income comes from highly taxable sources, your income could breach the threshold and trigger a clawback.

Use your TFSA

Contributing more to your Tax-Free Savings Account (TFSA) before retirement is a prudent strategy, as when you withdraw the money in retirement, the money won't be considered income and will not count toward your income level.

This is what makes the TFSA different from the RRSP in that TFSAs are tax free. With RRSPs, you're deferring taxes only until you withdraw the money.

If you don't need the tax benefit of the RRSP today, consider maxing your TFSA out first, as it could make a major difference in retirement.

Use your RRSP

If you do have money to withdraw for the RRSP, you could withdraw during a time when you're expecting to have low taxable income, rather than waiting to withdraw *after* you've taken your OAS, potentially triggering a clawback.

You could also use your RRSP to your advantage by contributing to it as well while in retirement to gain some tax credits and lower your taxable income.

Defer OAS

You could also combine with some of the other tips is to defer your OAS payments by five years, especially if you may have a relatively high income level early in retirement.

By deferring, you also become eligible to receive larger OAS payments when you *do* decide to receive it, which can be helpful, but will depend on the rest of your tax situation.

Bottom line

However, none of these tips will matter unless you are buying high-quality, long-term stocks ahead of time to grow your wealth and set you up to be positioned well for retirement.

Building your portfolio with great stocks such as an investor favourite like **Fortis Inc** is just as crucial as tax planning.

Fortis is an ideal stock for a retirement portfolio because it's extremely reliable, with almost all of its revenue coming from regulated assets, it's one of the most defensive companies on the **TSX** and a dividend-paying stock.

Plus, not only does it pay a dividend, but it's also one of the oldest Canadian Dividend Aristocrats, with nearly 50 years of consecutive dividend increases and plans to continue growing it by 6% annually until at least 2024.

This makes it extremely attractive and the perfect stock for retirees to rely on, especially as you can gain exposure today and receive a 3.3% dividend yield while paying just 16 times earnings.

It's crucial for investors to take both factors seriously, as it's just as important to be invested in the right stocks as it is to plan your finances and minimize your taxes.

These four suggestions are easy ways for investors to think about and begin to plan their finances into

retirement.

Each investors' situation will be unique, however, so in order to best plan for the future, investors should consult a tax export to work out their personal strategies and see which will be optimal for you.

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