OAS Clawback: 2 Cunning Ways to Avoid the 15% OAS Tax

Description

Any tax deduction that will hurt a pension is unwelcome. Many retirees dread the 15% recovery tax or "clawback" in the Old Age Security (OAS) plan, because it diminishes the absolute amount payable to them.

A retiree should watch out if annual income in 2020 exceeds $79,054. You'll have to pay 15% of the excess over the threshold level when you file your tax return next year. If you're a senior about to receive or receiving OAS payments, there are cunning ways to avoid the clawback.

Revisit your income sources

It would help if you had savvy moves to win the battle versus the OAS clawback. Since the notorious tax is based on net income, revisit your investments. As much as possible, you should have more non-taxable income to have less exposure to the OAS clawback.

Income or earnings from non-registered investments are taxable. Your overall income might go over the income threshold when a greater portion of your investment income is taxable. A complementing move is to realize capital gains before age 65 and before collecting your OAS to avoid activating the clawback.

Use the antidote to the OAS clawback

The Tax-Free Savings Account (TFSA) is the antidote to the OAS clawback. Whether you're saving or withdrawing, prioritize using your TFSA. All interest earnings, dividends, and gains from this investment account are tax-free. Likewise, all withdrawals are not subject to tax.

A new generation of wealth builders

My advice to you is to invest in dividend-producing assets such as real estate investment trusts

(REITs). The names you can consider putting in your TFSA are **RioCan** (TSX:REI.UN) and **Boardwalk** (TSX:BEI.UN). They are complementing investments because the two REITs are money-making partners.

In terms of dividend yield, RioCan (5.19%) and Boardwalk (5.18%) are even. Your money in the TFSA can grow faster, while offsetting the effect of the 15% OAS clawback at the same time.

RioCan has cemented its foothold in Calgary, Edmonton, Montreal, Ottawa, Toronto, and Vancouver. All six urban markets combined have the most significant potential for rental growth. RioCan capitalizes on the fact that these desirable areas have a low supply of rental properties for development.

Focusing on the secondary markets is no longer RioCan's strategy. This $8.89 billion REIT is leaning more to acquire and build new commercial as well as retail developments in urban markets. The shift in concentration increases the chances to meet the revenue target of 90%.

With its dominating presence in major markets, the percentage of revenue is increasing. RioCan generates quality and stable rental income from the high 97.1% occupancy rate.

Boardwalk is collaborating with RioCan in several multi-residential development opportunities in Mississauga and Ottawa. This $2.58 billion REIT acquired a 50% stake in Sandalwood Square stands. The partners will jointly construct a 25-storey, mixed-use building on the vacant land.

Upon completion, 470 residential rental units covering nearly 12,000 square feet will be available for rental. The zoning approval should come this year. Boardwalk also has a cost-sharing arrangement with RioCan to erect a 163-unit tower at the Brentwood Village Shopping Centre, which is due for completion in 2020.

Subdue the clawback

The 15% OAS shouldn't hurt your pension. Keeping your income sources like RioCan and Boardwalk within your TFSA should negate the effects of the clawback.

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Date
2025/08/18
Date Created
2020/02/20
Author
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