OAS Pension Clawback: How to Earn an Extra $260.63 Per Month and Avoid a CRA Recovery Tax

Description

Canadian retirees are searching for ways to boost income without paying higher taxes or being hit with the OAS clawback.

The Canada Revenue Agency (CRA) implements a pension recovery tax on OAS payments when net world income moves past a minimum threshold. The magic number in 2020 is $79,054. Every dollar of income above this level is subject to a 15% pension recovery tax that is applied to the next year's OAS payments.

Retirees who have company pensions and are collecting full CPP and OAS pensions can quickly reach the $79,000 level. That doesn't even consider other income from investments in taxable accounts, RRIF payments, or side gigs done for some pocket cash.

One way to avoid drifting into the clawback territory is to generate income inside a Tax-Free Savings Account (TFSA). All interest, dividends, and capital gains that occur in the TFSA are not taxed, and the CRA does not count any distributions of income towards the net world earnings calculation.

Let's take a look at one reliable dividend stock that might be an interesting pick to start a balanced TFSA income fund.

Telus

Telus generated $135 million in free cash flow in Q4 2019 and is targeting full-year 2020 free cash flow of up to $1.7 billion. That will put the dividend-payout ratio back in line with the targeted range of 60-75%.

The board just raised the dividend and intends to increase the distribution by 7-10% per year through 2022.

Telus is investing in network upgrades, and that will continue with the arrival of 5G. In addition, the company is expanding fibre access to ensure its customers get the broadband capacity needed to supply growing demand through video streaming and gaming.

Telus had 713,000 net customer additions in 2019 and hit annual revenue and EBITDA growth targets for the ninth consecutive year. Telus is known for its focus on customer service, and those efforts continued in 2019 with the company recording an industry-leading post-paid wireless churn rate below 1%.

Acquiring new customers is expensive, so keeping the ones that are already signed up is a major goal for all of the telecom providers.

Telus doesn’t own media assets, but that hasn’t hurt the company. Instead, Telus is focusing on other segments for generating long-term growth. Its Telus Health division owns private healthcare facilities across the country that cater to corporations and wealthy families.

Telus is a leading player in the development and rollout of digital solutions for the Canadian healthcare industry, and the clinics are using state-of-the-art technology. The health sector is ripe for digital disruption and Telus is leading the charge.

In the coming years and decades, the Telus Health group could become a significant driver of revenue and profit growth.

The stock is down from $55 per share earlier this month to about $50. The pullback is giving investors a great opportunity to buy Telus at a reasonable price and lock in a 4.6% yield.

The bottom line

The cumulative TFSA contribution space is up to $69,500.

Canadian investors can easily build a portfolio of **TSX Index** dividend stars that would produce an average yield of 4.5%. In a fully invested TFSA, this would generate an extra $3,127.50 per year, or about $260.63 per month, in tax-free income that won’t put OAS pension payments at risk of a clawback.

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