Retirees: Fight Back Against the 15% OAS Clawback

Description

Retirees in Canada love to hate the 15% Old Age Security (OAS) clawback for one good reason. It reduces the OAS benefits if net income exceeds the set threshold. Many are fighting back to minimize the recovery tax.

For the tax year July 2020 to June 2021, you don't want your net income in 2019 to go beyond $77,580. If it does, then you trigger the clawback. Thus, it would be best if you were to plan your strategies before retirement comes.

Splitting pension with the spouse

The primary purpose of a pensioner fighting back is to bring down income. One smart approach is to split a pension and other income with your spouse.

With the spousal Registered Retirement Savings Plan (RRSP), for example, you can place a substantial portion of your income in your spouse's name to reduce your net income.

Make RRSP withdrawals when in a lower tax bracket

Assuming you're retiring early, withdraw from the RRSP while in a lower tax bracket. This approach will effectively reduce your minimum Registered Retirement Income Fund (RRIF) withdrawal and your net income.

Maximize your TFSA

The antidote to the OAS clawback is your Tax-Free Savings Account (TFSA). Withdrawals from this investment account are non-taxable income, and therefore, it's untouchable by the CRA.

TFSA investors can fast track tax-free income generation with high-yield dividend stocks like **Alaris Royalty**

(TSX:AD) and **Boston Pizza** (TSX:BPF.UN). Both royalty companies are dividend monsters. The former yields 7.69%, while the latter offers a lucrative 8.52% dividend.

If you have both in your TFSA, the average yield is 8.1%. A total of a $40,000 investment ($20,000 in each stock) should produce an annual income of $3,242. By holding the shares for nine years, your TFSA savings will more than double to $80,662.56.

Alaris, a $754.57 million private equity firm, receive royalties or monthly cash distribution from private companies it has helped with equity or long-term working capital. The thrust is unconventional because Alaris extend financial assistance to profitable companies seeking to achieve maximum potential.

Thus far, Alaris has recorded $1.3 billion total investments in companies across various industries that are producing at least $3 million free cash flow. The transaction size ranges from $10 million to $100 million. This royalty company realizes 80% EBITDA margins, since overhead expenses are very minimal.

Boston Pizza is a well-known casual dining brand. This $300.67 million limited purpose open-ended trust derives revenue from 396 Boston Pizza restaurants under a franchise system sales set-up. In 2019, system-wide gross sales amounted to $1.1 billion, although it was 1.5% lower than the previous year.

The pizza chain attracts over 50 million customers yearly, but increased competition resulted in a decline in restaurant guest traffic. The bright spot is the increasing customer preference for takeout and delivery. Boston Pizza also cites seasonal fluctuation as the reason why the payout ratio rises from time to time.

Boston Pizza's initiatives in 2020 include elevating food quality and consistency, along with its core beverage programs. Management is preparing to launch a new digital ordering platform to capitalize on changing customer preferences.

Great equalizer

Steady investment income from high-yield stocks like Alaris and Boston Pizza can significantly reduce the impact of the 15% OAS clawback if other strategies don't work out.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

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