CRA Clawbacks: How to Earn an Extra $3,683.50 and Protect OAS Pension Payments

Description

Canadian retirees want to earn extra income without being bumped into a higher tax bracket. This is of particular interest for those who collect Old Age Security (OAS), as they could be hit with a clawback.

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OAS clawback 101

The Canada Revenue Agency (CRA) implements a pension recovery tax on OAS payments once net world income tops a minimum threshold. In the 2020 tax year, the target number is $79,054.

The government places a 15% OAS clawback on any income above this level, and the maximum income threshold for 2020 is $128,137. At that point, the CRA recovers the full OAS payments.

Retirees collecting generous defined-benefit pensions might quickly find themselves nearing the $79,000 mark, which is especially true if they receive full CPP and OAS pensions.

The CRA adds income from taxable investments to the net world income calculation, as well. In addition, the CRA counts earnings from a part-time job or rental property.

Lottery winnings are tax-free. Unfortunately, buying lotto tickets is an unreliable strategy for supplementing income.

TFSA to the rescue

Retirees can, however, take advantage of their growing TFSA space. Investment earnings created inside the TFSA are not taxed and don’t count toward the CRA’s calculation for net world income.

In 2020, Canadian retirees have up to $69,500 in cumulative TFSA contribution room, which is enough to create a decent dividend fund with top-quality stocks that pay reliable distributions.

While the market crash is uncomfortable at best, income investors now have a chance to buy great companies at low prices. Yields on some of the best dividend payers jumped considerably in recent weeks. That's great news for new buyers of dividend stocks.

Let's take a look at one top Canadian dividend stock that might prove an interesting pick right now to start a diversified TFSA income fund.

Telus

Telus is one of Canada's top communication businesses with wireless and wireline networks across the country providing mobile, TV, and internet services. The company invests billions of dollars each year on upgrades to ensure the infrastructure meets rising demand.

Some investors fear an economic downturn caused by the coronavirus outbreak would impact the pace of smartphone upgrades, but people rely on mobile phones and internet services to conduct their daily lives. As a result, pundits consider Telus to be a recession-resistant stock.

The company works hard to make sure its customers are happy, and the results show up in the numbers. Telus regularly reports the industry's lowest postpaid mobile churn rate. This is important, as acquiring new customers is expensive.

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The board raises the dividend at a steady pace and the payout should be safe. At the time of writing, the stock provides a 5.3% yield. Telus trades at $44 per share, compared to $54 a month ago, so there's decent upside potential on a market rebound.

The bottom line

Telus appears oversold today and should be a solid pick for a diversified TFSA income fund. In the current market, Canadian investors can easily create a portfolio holding top income stocks that provides an average dividend yield of 5.3%.

This would generate $3,683.50 per year in tax-free income on a $69,500 TFSA fund and not put OAS pension payments at risk of a clawback.

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