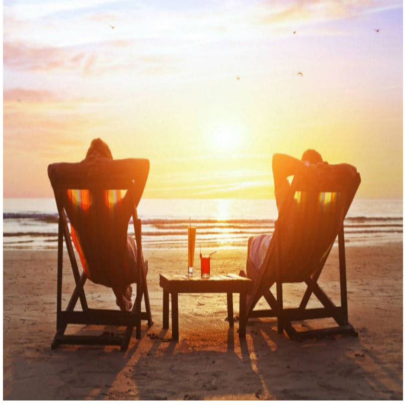

CRA Clawback: How Retirees Can Use a TFSA to Increase Income and Protect OAS Pension Payments

Description

Canadian pensioners are constantly searching for ways to get better returns on their savings without getting bumped into a higher tax bracket or being hit by the CRA's OAS clawback.

OAS recovery tax

The CRA implements a pension recovery tax on OAS payments when net world income tops a minimum threshold. In the 2020 tax year, the number to watch is $79,054. Income earned above that level is subject to a 15% OAS clawback. Once net world income reaches the maximum threshold of $128,137, the CRA recovers the full OAS pension payments.

Rising expenses

Retirees face increasing living costs just like everyone else, but many are on fixed-income payments and have limited options to increase earnings to offset the hit. Property taxes and food prices, for example, are rising well above the inflation rate in many cities.

The government increases CPP and OAS pensions according to national inflation statistics, but this might not cover the true rise in a retiree's annual living costs.

A $79,000 per year income is certainly comfortable by most people's standards. However, it doesn't take long to burn through the after-tax amount. As a result, retirees want to protect OAS payments against CRA clawbacks.

TFSA solution

One way to increase income on savings while ensuring all the earnings go right into your pocket is to generate the returns inside a Tax-Free Savings Account (TFSA). The TFSA limit increased by $6,000 in 2020 and pensioners now have up to $69,500 in cumulative space to invest.

The market crash is providing investors with an opportunity to add top-quality dividend stocks at cheap prices. Yields are at levels that few people would have believed possible from some of Canada's best companies.

Let's take a look at one top dividend stock that appears oversold right now and pays a great dividend that should be safe while the market works its way through the difficult times.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a leader in the Canadian and U.S. energy infrastructure sector. The company owns and operates oil pipelines and natural gas pipelines. Roughly a quarter of all Canadian and U.S. oil production and 20% of the natural gas consumed in the United States passes through Enbridge's network.

The crash in oil prices is putting pressure on the producers, which will reduce capital investments and hit production levels at some companies. That said, most of Enbridge's key customers are oil majors that should maintain most of their output through the downturn.

Enbridge also has natural gas distribution assets that deliver essential fuel to homes and businesses. In addition, the company owns renewable energy assets, including solar, wind, and geothermal sites.

Revenue primarily comes from regulated assets, which means that cash flow should be reliable despite the uncertain economic conditions. Enbridge has a large capital program in place that is expected to boost distributable cash flow by 5-7% per year over the medium term.

Dividend growth should occur in line with that guidance.

The stock currently trades at $38 compared to $57 in February. Enbridge appears heavily oversold and investors who buy at this level can pick up a dividend yield of 8.5%.

The bottom line

Retirees can take advantage of the market crash to build a TFSA portfolio of reliable dividend stocks to boost income that won't put OAS payments at risk.

The **TSX Index** is home to many industry leaders that are cheap today, and pensioners can now easily get an average yield of 6% from a basket of top companies.

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