



Canada Revenue Agency: The Sting of the 15% OAS Clawback Is Manageable

Description

Canadian retirees shouldn't worry too much about the Old Age Security (OAS) clawback. The 15% recovery tax the Canada Revenue Agency (CRA) charge is manageable after all. You can do something to [minimize the sting](#) and not allow it to ruin your retirement pension.

Pillar of the retirement system

The OAS is the pillar of the retirement income system in Canada. Retirees love it and hate it at the same time. The recipients or the qualified seniors ages 65 and older receive monthly payments for use in retirement. However, many dread the 15% OAS clawback, because it lessens the amount of remuneration.

Your income for 2020 shouldn't exceed the minimum income recovery threshold of \$79,054. If it does, you'll trigger the OAS clawback. The CRA will charge you a 15% tax on the excess amount. If your income reaches \$128,137, or the maximum income recovery threshold, you get nothing from OAS.

A brilliant strategy

Given these boundaries, retirees use one brilliant strategy to dodge the OAS clawback. By minimizing the tax bite, you lessen the stress during retirement. If you want to reduce the effect of the 15% tax significantly, take the tax-free route. Opening and prioritizing your Tax-Free Savings Account (TFSA) removes the anxiety.

If you invest in a high-quality asset like **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), or Scotiabank, all income or dividends you'll derive thereto is 100% tax-free. The current dividend yield is 7.6%. Assuming your available TFSA contribution room is \$12,000, the tax-free income is \$912.

Scotiabank's dividend history dates back to 188 years. Since making its first dividend payout in 1829, this \$56.66 billion bank has been relating dividends to trend earnings. This policy allows the bank to grow the yield, despite cyclical downtrends, market corrections, and recessions.

At present, Scotiabank is facing another acid test. In 2019, the bank was able to post a 13.2% gain amid the industry headwinds. Year-to-date, however, the stock is losing by 35.46%. The market is reeling from the spreading epidemic and oil price crash.

For the 2020 first quarter, Scotiabank reported a 7% earnings growth. The quarter's earnings topped \$2.3 billion, while return on equity (ROE) increased to 13.9%. The solid performance indicates the strength of Scotiabank's diversified product mix as well as geographical focus on the Americas.

The stock was starting to gain ground in early January until the pandemic erupted and turned markets upside down. As the bank rides out the storm, it will be instituting support measures and assistance to clients impacted by COVID-19.

A backup and effective option to dodge the 15% OAS clawback is to consider withdrawing from your Registered Retirement Savings Plan (RRSP) before age 65. This option is often used to lower taxable income before the retirement date.

The 15% OAS clawback takes a backseat

While Canada and the rest of the world [contain the economic impact of COVID-19](#), let taxes take the back seat. Health should be the main focus of retirees at present. Hopefully, you'll be in better shape when the time to deal with the 15% OAS clawback comes.

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