



CRA Clawbacks: How to Earn an Extra \$4,310 and Protect OAS Pension Payments

Description

For retirees, every penny saved is a penny earned. During retirement, Canadians would want their investments to work for them and pay a minimal amount in taxes. The government has a couple of retirement benefits such as the Canadian Pension Plan and Old Age Security (OAS).

In case the net world income of retirees exceeds the threshold amount of \$77,580 for 2019, they will have to repay part of the OAS pension in taxes. The minimum income recovery threshold figure for 2020 stands at \$79,054, while the maximum figure is \$128,137.

This means the Canadian Revenue Agency (CRA) charges a 15% tax for people earning income above the minimum recovery threshold, while the entire OAS payments are recovered if this figure is over the maximum threshold.

Residents collecting OAS need to [ensure that this clawback amount is minimized](#). The maximum monthly payment amount for an OAS pension holder is \$613.53. Retirees who collect both CPP and OAS payments might see their annual income rise above the minimum threshold figure, which will mean a tax charge will then be levied.

TFSA earnings are not subject to tax

One investment vehicle that retirees can use to boost their annual income is the Tax-Free Savings Account (TFSA). The TFSA is one of the most flexible investment options for Canadians, and any earnings that accrue in this account are tax-free.

In 2020, the maximum contribution limit for Canadians is \$69,500. Retirees can look to invest this capital into high-quality dividend yielding stocks which will supplement their pension payments.

The coronavirus-led market crash has sent several blue-chip stocks spiralling downward and increasing yields to multi-year highs. One such company that retirees can consider is **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). Shares of this Canada-based banking giant are trading at \$58.07,

which is 25% below its 52-week high.

BNS is Canada's third-largest bank and is well diversified. It generates sales from Canada, the United States and Latin America. In fact, its acquisitions over the years have helped BNS become a top-10 ranked bank in Latin American countries such as Mexico, Peru, Chile and Columbia.

In the fiscal first quarter of 2020, BNS generated over 30% of net income from international markets. Investors are worried about the company's [exposure to these volatile markets](#) that carry significant geopolitical risks. Further, falling oil prices and exposure to the energy sector has also contributed to the stock decline.

Banking giants, including BNS, will also be impacted in the near-term by rising unemployment rates, a global recession and delinquencies in the aftermath of the COVID-19. But once these turbulent times pass, BNS will stand to benefit from stimulus packages, rising consumer spending and low interest rates.

While BNS appears oversold today, it remains a volatile buy at least in the upcoming quarters. However, BNS is also one of the top Canadian companies with a strong balance sheet and robust cash flows.

The recent price decline has increased the stock's forward yield to a tasty 6.2%, which means an investment of \$69,500 in BNS will result in annual dividend payments of \$4,310.

While it is not advisable to put all your eggs in one basket, retirees can consider similar companies that are fundamentally strong for their Tax-Free Savings Account (TFSA) and avoid clawback on their OAS.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
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