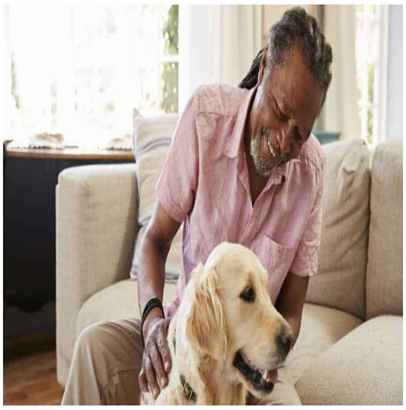

CRA Clawbacks: How to Earn an Extra $5,700 and Protect OAS Pension Payments

Description

The equity markets have wiped off billions in investor wealth since February 2020. Several indexes are trading over 20% below record lows due to the COVID-19 pandemic, which has driven consumer spending lower. The oil price war is also weighing heavily on energy stocks and exacerbated the sell-off.

Retirees who have exposure to the stock market would have seen their portfolio value plummet in the last two months. But this is likely to be a near-term headwind, and markets are expected to recover once governments around the world get the pandemic under control. In fact, the equity markets are already up over 20% in the last three weeks and are showing signs of recovery. However, the markets are expected to be volatile until the COVID-19 is brought to manageable levels.

When you have retired, you would ideally want your investments to generate a steady flow of passive income and lower taxes payments. Retirees now have an opportunity to buy top-quality dividend-paying stocks, which will not only result in capital appreciation but also a steady stream of dividend income.

How to protect OAS pension payments

Canadians have retirement benefits such as the Canadian Pension Plan and the Old Age Security (OAS). The maximum monthly payment amount for an OAS pension holder is $613.53.

Retirees with a net world income of over $77,580 will have to repay part of the OAS pension in taxes. The minimum income recovery threshold figure this year stands at $79,054, while the maximum figure for 2020 is $128,137. So, what does this mean for OAS pensioners?

The threshold amount indicates the Canada Revenue Agency (CRA) will charge a 15% tax for people earning income above the minimum threshold limit. Additionally, the CRA recovers the entire OAS payment amount for people with incomes above the maximum limit.

Canadians collecting OAS payments need to ensure that the clawback amount is minimized. Retirees who collect OAS and CPP payments might earn annual income above the threshold figure and will subject to a 15% tax.

However, retirees can use the benefits of investing in the Tax-Free Savings Account (TFSA) to avoid the OAS clawback. Any earnings that accrue in the TFSA account is tax-free. The maximum contribution limit in the TFSA stands at $69,500.

The TFSA contribution room can be allocated to build a solid portfolio of top-quality dividend-paying companies. Currently, energy companies such as **Enbridge** have lost over 30% in market value, increasing the stock's forward yield to 8.23%. This means a $69,500 investment in Enbridge can generate over $5,700 in annual dividend payments.

Other top-quality energy stocks include **Suncor** and **Pembina**, which have forward yields of 8% and 9.2%, respectively. In case you equally allocate the $69,500 in the three stocks, you can generate close to $6,000 in annual dividend payments.

However, it is not prudent to invest a significant portion of your investments to a particular company or even a single sector. Retirees would ideally want to have a diversified portfolio of stocks to reduce risk and volatility.

Retirees can also consider investing the **iShares S&P/TSX 60 Index ETF**, which is an exchange-traded fund (ETF) with exposure to Canada's largest companies, including Enbridge. This ETF also has a forward yield of 3.3%.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date

2025/08/18
Date Created
2020/04/09
Author
araghunath