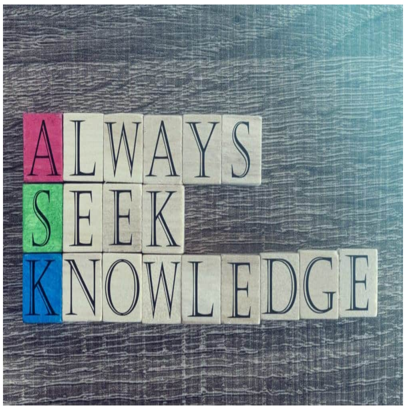

OAS Clawback: 1 Crafty Way to Avoid the 15% OAS Tax

Description

The novel coronavirus is causing economic pain to taxpayers. Just as individual taxpayers were preparing income tax returns for the year 2019, an epidemic exploded. Because of the outbreak, the Canada Revenue Agency (CRA) gave taxpayers a penalty-free extension.

Instead of the April 30, 2020 deadline, all Canadian taxpayers have until June 1, 2020, to file income tax returns and until August 31, 2020, to pay any corresponding tax owed. Businesses have the same deadlines to file tax returns and pay corporate taxes.

But because of the fracas brought by COVID-19, taxpayers need to be reminded of the 15% OAS clawback. Attending to your health is the priority, although you'll have to deal with the tax component very soon.

OAS clawback refresher

The CRA refers to the clawback as a recovery tax. Since the tax filing in 2020 is for the income year 2019, filers ages 65 and older must be mindful of the income thresholds set by the tax agency.

For the income year 2019, the minimum income recovery threshold is $77,580, while the maximum is $126,058. Assuming your income last year was $90,000, you would have exceeded the minimum threshold by $12,420. Thus, the recovery tax due or clawback is equivalent to 15% of the excess, which is $1,863.

The recovery tax period is from July 20, 2020, to June 21, 2021, so you will be repaying the clawback ($155.25 monthly) within the period. For those reaching the maximum income thresholds, the OAS benefit reduces to zero.

While the minimum and maximum income recovery thresholds change yearly, computing for the recovery tax is the same. The OAS is the well-loved retirement income system in Canada; the thorn in OAS for retirees is the clawback. Thus, dodging the dreaded recovery tax is foremost in the minds of retirees.

Minimize the impact

One proven approach to minimize the impact of the OAS clawback is to withdraw from your Retirement Registered Savings Plan (RRSP) before you turn 65 years old. If you withdraw early, you'll bring your RRSP fund available on retirement date lower than the income threshold.

Keep in mind that the RRSP was designed for retirees to have lifetime benefits. As such, most RRSP users have buy-and-hold stocks like **Canadian Imperial Bank of Commerce** in the account. This $38.35 billion bank is the fifth-largest lender in Canada. CIBC has been caught in the one-two punch of market disasters. The bank stock is unceremoniously losing by 18.8% year to date.

At the price of $86.17 per share, investors can partake of the 6.87% dividend. The beauty of having a blue-chip stock in your RRSP is that your money growth is tax-sheltered. The CRA will tax your income from CIBC when you withdraw it from your RRSP.

Aside from the tax shelter, other RRSP advantages are tax deferral and tax-deductible contributions. The market is lousy at the moment, so it's risky to add more to your portfolio. Nevertheless, CIBC investors are assured the bank can live through this 2020 nightmare.

Health comes first

COVID-19 is the bigger threat, and not the OAS clawback. You need to prioritize your health over the recovery tax if you want to enjoy retirement life.

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