CRA Clawbacks: How to Earn an Extra $14,000 and Protect OAS Pension Payments

Description

Retirees would want to forget the first few months of 2020 if they could. The COVID-19-driven market crash has wiped out billions in market value. Though equity markets are making a comeback, the **iShares S&P/TSX 60 Index ETF** is still down 19% from record highs.

The oil price war and a massive decline in consumer spending, coupled with countrywide lockdowns, will continue to weigh on global investors. No one knows how long the dreaded virus will keep consumers indoors. Several economists are already predicting a recession that might be far worse than the financial crisis of 2008-09.

Retirees with high exposure to the equity markets will have seen a significant decline in portfolio value already. However, with interest rates at record lows, it is still a good idea to invest in stocks in the current environment.

Retirees need to protect OAS pension payments

While COVID-19 is wreaking havoc at the global level, Canadians need to ensure their OAS (Old Age Security) payments are protected. The Canada Revenue Agency (CRA) ensures an OAS clawback for retirees earning annual income above the threshold figure of $79,054.

This means the CRA will levy a 15% tax on the OAS for Canadians earning income above the threshold figure. The maximum threshold figure is $128,137, which means the CRA will recover the entire OAS payments for people earning above this limit.

So how do Canadians minimize these clawbacks? One way is by investing in a Tax-Free Savings Account (TFSA). This ensures that any returns in the form of capital appreciation or dividends can be withdrawn without paying any tax. The maximum cumulative contribution limit for the TFSA stands at $69,500.

Invest in large-cap stocks

Retirees need to invest in companies that have strong fundamentals, huge cash reserves and robust business models to handle a recession or economic downturns. Such companies have seen several business cycles and are well-equipped to handle volatility.

Large-cap stocks to consider include the big banks, like **Royal Bank of Canada** and **Toronto-Dominion Bank**, or utilities like **Enbridge**. While these stocks have lost momentum recently, they have survived multiple business cycles and economic downturns in the past.

E-commerce giant

While most stocks have been decimated in the recent sell-off, one trillion-dollar giant has managed to beat the broader market. Shares of **Amazon** are up over 20% year-to-date, which means an investment of $69,500 at the start of 2020 would have already returned $14,000.

Amazon has seen an unprecedented surge in retail orders due to the lockdown and continues to aggressively expand its workforce to keep up with demand. The stock has returned 35% in the last month and remains a solid long-term bet.

While it generates a majority of sales from its retail segment, Amazon is also a market leader in the public cloud segment. It is also the third-largest digital advertising platform in the world, after **Alphabet's** Google and **Facebook**. Amazon Prime Video also stands to benefit from the lockdown as people are spending more time at home, which will increase demand for its streaming segment.

Amazon has been one of the top stocks in the last two decades. If you had invested $1,000 in the stock back in April 2010, it would have ballooned to $16,000.

Focus on growth

Amazon's Canadian counterpart, **Shopify** (TSX:SHOP)(NYSE:SHOP) is another large-cap company that is roaring back to life and can be a solid pick for investors with large risk appetites. Shopify shares are up over 55% in the last month and trading just 7% below its record high. Canada's e-commerce giant is currently valued at $90 billion. Its return since its IPO in May 2015 is a staggering 3,100%.

Shopify claims to be the second-largest online retailer in North America behind Amazon. It is banking on its subscription sales to help the company offset any decline from its merchant solutions business. The COVID-19 pandemic will result in lower than expected spending in the near term. However, like Amazon, even Shopify may stand to benefit from incremental online sales at a time when brick-and-mortar stores are shut.

In the long run, Amazon and Shopify will depend on the expanding addressable e-commerce market to drive top-line growth higher. These tech giants are both focused on growth. They are willing to sacrifice profit margins to gain customers and increase revenue. While Amazon is well-diversified, Shopify is growing sales at a far higher pace. They are both attractive bets in the upcoming decade.

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