CRA Clawback: How to Earn an Extra $318 Per Month and Still Protect Your OAS Pension

Description

Canadian retirees constantly worry about the CRA clawback on their OAS pension payments.

OAS recovery tax

The CRA implements a pension recovery tax on Old Age Security (OAS) payments once net world income tops a minimum threshold. In the 2020 tax year, the magic number to watch is $79,054. Every dollar of taxable income above that amount triggers a clawback of $0.15 on OAS payments. The recovery tax continues until the full value of the OAS pension is wiped out. That would occur at a net world income of $128,137.

The $79,000 mark might seem like a high bar to hit for many people. It would certainly enable most retirees to live a comfortable life. However, many people collect income from a number of sources in retirement, so it doesn't take long in those cases to hit the minimum threshold.

This typically occurs when a person collects a generous defined-benefit pension in addition to CPP and OAS pensions. Another possible source of income would be RRIF payments that come from previous RRSP investments.

How to boost income without paying more tax

Once tax authorities take their cut, the remaining funds from the various pension plans can quickly get used up on daily living expenses. As a result, people seek out new sources of funds but don't want to be hit by a double barrel of a higher marginal tax rate and OAS clawbacks.

One popular option is to hold income-generating investments inside a Tax Free Savings Account (TFSA). The TFSA's cumulative contribution limit is now as high as $69,500 per person. This is large enough to build a portfolio of dividend stocks to create a decent stream of tax-free income.

All the money earned inside a TFSA is safe from the CRA. The earnings are not taxed, and the money you take out doesn’t count toward the net world income calculations.

Top TFSA stocks

The market crash is giving retirees an opportunity to set up a dividend-focused TFSA fund with top-quality stocks that pay reliable distributions. In fact, getting an average yield of 5-6% right now is possible from a basket of industry leaders with strong track records of dividend growth.

Let’s take a look at one example that might be a good pick to get the TFSA income fund started.

BCE

BCE (TSX:BCE)(NYSE:BCE) is a long-term favourite among retirees for its steady and generous dividend. The communications giant raised the payout by 5% for 2020, and the current distribution provides a yield of 5.8%.

BCE invests billions of dollars in network upgrades to ensure its customers have access to the wireless and wireline broadband they need. The infrastructure is performing well during the lockdowns, as families work and study from home. Streaming demand is surging and BCE should report a decent boost in plan upgrades as a result.

The media group, however, is struggling. Sports teams are idle and advertising revenue is drying up, as companies preserve precious cash flow in an attempt to ride out the pandemic. The media group’s contribution to total revenue is small, so the near-term impact shouldn’t be material, and things should be back to normal next year.

The dividend should be very safe, and BCE’s share price is holding up well. At the time of writing, the stock trades at $57 compared to $65 in February.

The bottom line

The **TSX Index** is home to many top stocks that pay reliable distributions that should survive the downturn and continue to grow once the recovery arrives.

A diversified portfolio could that offers an average yield of 5.5% would generate $3,822.50 per year in tax-free income that would not put OAS payments at risk. That’s an extra $318.54 per month!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)

2. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/07/29
Date Created
2020/04/23
Author
aswalker