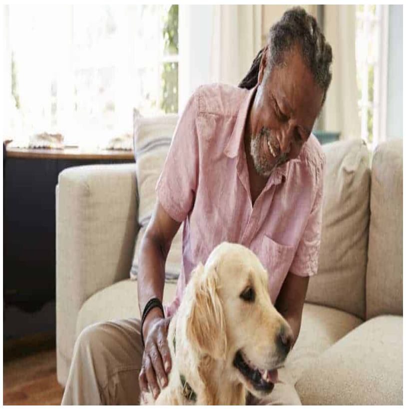

CPP Pension Users: 5 Crafty Ways to Avoid the OAS Clawback

Description

Canadians can't avoid dealing with taxes. It happens once a year when all taxpayers [file tax returns and pay taxes] owed. For Canada Pension Plan (CPP) users, the Old Age Security (OAS) clawback is a nuisance. But why does it matter to retirees?

The OAS clawback is a 15% deduction from the OAS pension if a retiree's income exceeds the minimum threshold set by the Canada Revenue Agency (CRA). For the 2019 tax year, the minimum income recovery threshold is $77,580, while the maximum threshold is $126,058.

An income of $90,000 will trigger the clawback. As there's an excess of $12,420, the CRA will charge you $1,863 or a monthly OAS deduction of $155.25. If your income is equal or over the maximum threshold, your OAS benefit is zero.

However, here are five crafty ways to bring down your income and avoid the dreaded recovery tax.

1. Prioritize tax-free earnings

Prioritizing your Tax-Free Savings Account (TFSA) is the antidote to the OAS clawback. Because all profits or gains in the TFSA are tax-free, it will not push up your income to the set threshold.

2. Work as a tandem

Married individuals can team up to minimize or eliminate the 15% recovery tax. Splitting income with your spouse is a proven strategy. It lowers the individual income of either spouse so that the CRA won't deduct any from the OAS benefit.

3. Delay CPP

Do you want to receive a higher CPP payment? You will when you defer the withdrawal until age 70.

By delaying, the amount will be 42% more than you could receive at age 65. By deferring your CPP, you would have less income from age 65 to 70. Retirees with no health issues usually take this route.

4. Delay OAS

There are benefits to deferring the OAS up to age 70 too. Your monthly pension will increase by 0.6% for every month. Thus, when withdrawal time comes, you would be receiving 36% more OAS benefits per month.

5. Contribute to RRSP in post-retirement

Keep contributing to your Registered Retirement Savings Plan (RRSP) past your retirement, and until your 71st birthday. This strategy is helpful if your income is higher in the years leading to between 65 and 70.

Most RRSP users have held the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock for a very long time. Your earnings from dividends paid by the second-largest bank in Canada will grow tax-free. You'll pay taxes upon withdrawal.

TD is a Dividend Aristocrat. The bank's 163-year dividend history is proof of its reliability as a source of retirement income. You would think TD will follow other companies in slashing dividends because of the pandemic. The 5.54% it is offering at present is safe and sustainable.

This top-caliber bank has the financial strength to overcome a deep recession. However, TD is posting a $1.1 billion loan-loss provision for its retail division in the U.S.in Q2 2020. The larger provision, however, will not impact on earnings.

No clawback

Retirees who have OAS clawback anxiety should stay calm. Make it your goal to reduce your overall income by following the crafty ways. If successful, the CRA won't hound you for going beyond the threshold.

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