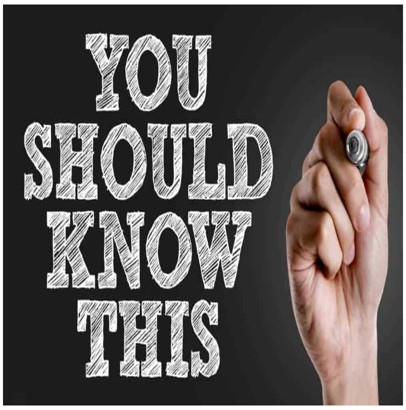

Canada Revenue Agency: How to Save $300 on Your Tax Bill and Avoid OAS Clawbacks!

Description

If you're a retiree, you're probably receiving Old Age Security (OAS) benefits. You become eligible for the program at age 65 and can start receiving payments immediately. Regardless of your marital status, you can receive up to $613 a month from the program. Under special circumstances, you may receive up to $918 a month — generally if you've separated from your partner or your partner is deceased.

For simplicity's sake, I'll be using the $613 maximum for the rest of this article.

$613 a month is a nice income supplement. It works out to $7,536 in a year. That could go a long way toward helping you pay your bills. However, if you earn a significant amount of income, your OAS could be clawed back. Specifically, if you earn over $79,054, you may have to pay what's called the *OAS recovery tax*. This is a special tax for OAS earners who have significant outside income. The idea is, because resources are scarce, OAS money should go to those who need it most.

But simply earning a high income doesn't mean you don't need every penny in OAS. If you earn $80,000 but have $500,000 in debt, you may need the income supplement quite urgently. Sadly, without taking steps to lower your tax rate, you'll have to pay some of it back. Fortunately, there are indeed ways to lower your tax rate. By doing so, you can not only avoid the OAS clawback but save on investment taxes, too!

Invest in a TFSA

Assuming you're going to hold investments, holding them in a TFSA lowers your tax rate. TFSA income and gains aren't considered taxable income. So, if you hold investments in a TFSA, you'll pay less tax than you would normally.

Let's say, for argument's sake, that you had a TFSA portfolio paying $1,000 a year in interest. If your marginal tax rate was 30%, and you held in a regular account, you'd pay $300 on those interest payments. If you held it in a TFSA, however, you'd pay $0. That's a $300 savings just by holding your investments in a TFSA! And, even better, having that $1,000 off your taxable income could spare you the OAS recovery tax.

A good beginner investment to start with

If you want to move some of your savings into a TFSA, a great beginner stock to consider would be **Fortis** (TSX:FTS)(NYSE:FTS).

Fortis is a dividend stock with a 3.5% yield. That means you get $3,500 back for every $100,000 invested. If you had your TFSA maxed out at $69,500 and fully invested in FTS, you'd get $2,432 in dividends each year.

That same amount of income held outside a TFSA could easily put you over the OAS recovery tax threshold. It could also result in several hundred dollars worth of income taxes. By holding the shares in a TFSA, you avoid both the income tax, and the OAS recovery tax. If you ever chose to sell your FTS shares, you'd avoid the capital gains tax, too!

Put simply, if you're a retiree, there's no reason *not* to hold as many investments as possible in a TFSA. In retirement, every penny counts, and the TFSA makes every penny go further.

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