



## Retirees: Here's How You Can Avoid the OAS Clawback in 2020

### Description

Old Age Security (OAS) is the largest pension program in Canada. It is a monthly payment available to seniors aged 65 and older who also meet Canadian legal status and residence requirements. OAS payments are considered taxable income, which can complicate retirement plans for some Canadians. Earlier this year, I discussed how retirees can get by with just [OAS and Canada Pension Plan \(CPP\) payments](#).

Today, I want to discuss how retirees can duck the pesky OAS clawback in 2020. The deadline for tax filing has been pushed back to June 1, 2020, so retirees may want to use this extra time to re-evaluate their OAS payments.

### Retirees: Why the OAS clawback is a bummer

In another article earlier this year, I discussed some of the ways the Canadian federal government has moved to [provide financial relief](#). This was before the worst of the COVID-19 pandemic struck Canada. Now, retirees and those nearing retirement find themselves in one of the worst economic climates since the Great Depression.

A **Sun Life** survey in late 2019 found that 23% of retirees described their post-employment life as "frugal." Nearly 75% of respondents said that retirement was not what they expected. Aside from optimizing their tax situation, retirees may also want to explore monthly dividend stocks.

For example, a stock like **TransAlta Renewables** has promising potential for long-term capital growth while also boasting nice monthly income. It last paid out a monthly dividend of \$0.07833 per share. This represents an attractive 6.6% yield. Moreover, the stock possesses a favourable price-to-book value of 1.6 and is trading in the middle of its 52-week range. This is a nice hold for retirees for the long haul.

### How income splitting can provide relief

Income splitting is a great tool for retirees who are looking for tax relief. If your spouse has a lower income, you can transfer up to 50% to that spouse and reduce your overall income. Retirees can split their pension and other income such as annuity payments, Registered Retirement Income Funds (RRIF), and CPP. This can help to limit or avoid OAS clawbacks altogether.

When election season rolls around, there are often murmurs that one party or another will look to take on this significant tax break. Fortunately for retirees, parties have consistently shied away from this controversial topic. Do not expect the income splitting strategy to hit the chopping block anytime soon.

## 1 more tactic to duck the clawback

RRSP withdrawals are typically inadvisable. However, it can help to avoid the OAS clawback. Canadians may elect to withdraw from their RRSP funds before the age of 65 if they pass through periods with low taxable income. A reduction in RRSP funds can lead to a boost in OAS benefits. However, RRSPs are tax-deferred, so taxes will be due at withdrawal. That is why this tactic, though effective at times, is not necessarily advisable.

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aocallaghan

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