TFSA Investors: 1 Top Income Stock to Help Retirees Avoid OAS Clawbacks

Description

It's not easy being a retiree these days.

Falling interest rates eat into the returns pensioners can get from guaranteed investments. In fact, a GIC from Canada's big banks ranges from 1-2% right now depending on the term. At the same time, retirement living costs continue to increase and the lockdowns aren't making things easier.

Seniors are searching for ways to boost returns on their savings without paying more taxes. In addition, those who collect OAS pensions have to watch out for the CRA clawback.

What is the OAS pension recovery tax?

The CRA implements a 15% OAS clawback on every dollar of net world income that seniors earn above a minimum threshold in a given year. The level to watch in 2020 is $79,054.

> People with multiple sources of retirement income can quickly hit the $79,000 mark. As a result, it makes sense to search for ways to generate income that isn't counted by the CRA. Aside from winning the lottery or getting lucky at the casino, the best way to create tax-free income might be to earn it inside a Tax-Free Savings Account (TFSA).

TFSA benefits

Interest, dividends, and capital gains generated on investments held inside a TFSA are fully yours to keep. The CRA doesn't take a part of the gains and any profits removed from the TFSA don't count toward the net world income calculation.

The downturn in equity markets in recent months provides TFSA investors with a rare opportunity to buy top-quality dividend stocks at low enough prices that they offer above-average yield.

In fact, it's easy to put together a first-class portfolio right now that can generate an average yield of at least 5%.

Let's take a look at one top dividend stock that appears cheap and might be a good pick to get the TFSA income portfolio started.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second largest bank by market capitalization. The company is often cited as the safest pick among the Canadian financial institutions due to its focus on retail banking activities.

This doesn't mean TD is a risk-free investment, however.

Banks are facing significant potential loan losses due to pandemic lockdowns and the resulting surge in unemployment. In the event the economy doesn't bounce back as quickly as anticipated the damage could be dear.

CMHC recently said it sees a potential 18% drop in house prices due to a wave of listings caused by people not being able to pay their mortgages. The government agency says 12% of mortgages are already deferred and the ratio could reach one in five by September.

That said, most of the bad news appears to be built into TD's stock price right now. Any additional downside should be viewed as an opportunity to add to the position. Near-term risk remains, but TD should be a solid buy-and-hold income pick.

Upside?

TD trades for close to $57 at the time of writing, compared to $75 per share in February, so there is decent opportunity for gains once the economy recovers. At today's level the stock provides a 5.5% dividend yield.

The bottom line

Volatility should be expected in the coming weeks and months. However, TD appears cheap today and should be a solid anchor for a TFSA dividend fund.

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