CRA 101: How Seniors Can Earn an Extra $318 Per Month and Avoid the OAS Clawback

Description

Canadian retirees face rising living expenses and want more income, but they risk being hit by the CRA's clawback on OAS pension payments.

CRA pension recovery tax

The CRA implements a clawback on OAS pension payments when net world income tops a minimum threshold in the the relevant year. The limit to watch in 2020 is $79,054.

A lot of people would be happy to get more than $79,000 per year in retirement income, and many might think this is a high amount. However, for seniors who receive a decent defined-benefit company pension plus full CPP and OAS pensions, it doesn't take long to hit the mark.

Retirees have different expense situations, so it isn't a stretch for a person with retirement income at that level to find things a bit tight every month.

The challenge to earning more money is to find a way to do it without triggering the 15% OAS clawback.

TFSA solution

One way to boost income and protect OAS payments is to earn the money inside a TFSA. The cumulative TFSA contribution space for 2020 is $69,500 per person. That's enough room to create a decent portfolio of income-generating dividend stocks.

Earnings generated inside the TFSA are beyond the reach of the CRA. This means you can create an income stream to supplement other pension income while avoiding being bumped into a higher tax bracket. The money removed from the TFSA is not used when the CRA makes the net world income calculation.

Top stocks

The 2020 market correction has reduced the share prices of many top Canadian dividend stocks to the point where they provide very attractive dividend yields.

Let's take a look at two stocks that might be interesting picks.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a leader in the North American energy infrastructure industry. The company gets most of its revenue from regulated assets. This means cash flow should be reliable and predictable. The volatility in the oil market has a limited direct impact on the revenue stream. Enbridge simply collects a fee for moving product along its pipelines.

Oil volumes along the mainline system dropped in the past three months, but the situation should reverse course as the economy recovers. Ongoing capital projects will boost revenue in the coming years to support the distribution.

Enbridge currently trades at $45 per share and provides a 7.2% dividend yield. The stock sat at $57 in March, so there is decent upside potential.

BCE

BCE (TSX:BCE)(NYSE:BCE) is a giant in the Canadian communications sector. The company operates world-class wireless and wireline networks across the country that provide mobile, internet, and TV services to homes and businesses.

BCE spends billion of dollars on upgrades to the system to ensure customers have access to the broadband they need. The company's fibre-to-the-premises initiative runs fibre optic lines right to the building of its clients. This helps BCE protect its wide competitive moat.

The business units generate strong free cash flow to support ongoing capital investments and the generous dividend. The stock trades close to $60 per share compared to the pre-crash high of $65. Investors who buy now can pick up a 5.5% yield.

The bottom line

Enbridge and BCE should continue to be solid picks for income investors.

It is possible to build a top-quality portfolio right now that would provide an average yield of at least

5.5%. In a $69,500 TFSA this would generate $3,822.50 per year.

That’s an extra $318 per month in tax-free income that won’t put OAS payments at risk!

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