Canada Revenue Agency: How to Generate $420 in Extra Monthly Pension Income and Avoid OAS Clawbacks

Description

Canadians have a couple of pension plans to help them lead comfortable lives in retirement. One such pension plan is the Old Age Security (OAS), which is the Government of Canada's largest pension program.

Canadians above the age of 65 are eligible to receive OAS payments subject to a few requirements. For example, you need to be a Canadian citizen or a legal resident and should have resided in the country for a period of at least 10 years since the age of 18.

In 2020, OAS pension holders can receive a maximum monthly amount of $613.53 or a maximum annual amount of $7,362.36. However, there are some Canadians who will not just depend on pension payments on retirement. They will have multiple revenue streams once they retire.

This is where retirees need to be aware of a tax clawback on their OAS by the Canada Revenue Agency. According to the Canada Revenue Agency, retirees will be charged a 15% tax on their OAS if they have a net annual income above $79,054. Further, for Canadian retirees with a net annual income of over $128,137, the Canada Revenue Agency will recover the entire OAS amount.

There are a few ways to ensure that your OAS pension payout is safe from CRA clawbacks. Another way is to generate income inside your TFSA (Tax-Free Savings Account). The TFSA is one of the most flexible investment accounts for Canadians. Though it's not tax deductible, any income from the TFSA in the form of dividends or capital gains are completely exempt from CRA taxes.

Supplement your OAS with dividends from this energy giant

The TFSA contribution limit for 2020 is $6,000, while the total TFSA contribution room stands at $69,500. You can allocate this amount to purchasing top-quality dividend stocks that will help you supplement your pension income in retirement.

Canadians can consider stocks such as **Enbridge** (TSX:ENB)(NYSE:ENB) for their TFSA. Enbridge is the largest energy infrastructure company in North America and is trading 22% below its record highs. This means its forward dividend yield stands at 7.23%.

Enbridge is a pipeline company, which means it does not have direct exposure to commodity prices. However, it might still be impacted by lower volumes, as oil demand has plunged in the last two months.

Enbridge generates over 90% of EBITDA from fee-based cash flows, which enables it to sustain dividends amid the volatile macro environment. In order to maintain a strong balance sheet and increase liquidity, Enbridge sold $400 million in non-core assets in Q1. It has forecast cost savings of $300 million in 2020 and deferred almost $1 billion in capital expenditure.

In 2020, Enbridge expects cash flows between $4.5 and $4.8 per share, which is significantly higher than its dividend obligation of $2.3 per share in 2020.

The Foolish takeaway

In case you invest $69,500 in Enbridge stock, you can generate close to $420 in tax-free annual dividend payments. However, it’s not advisable to put all your eggs in one basket. Enbridge stock is just an example and you can identify similar companies with strong balance sheets, tasty dividend yields, and a huge market presence for your TFSA.

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