New CRA Assistance for Seniors: OAS Bonus and RRIF Reduction Help Retirees Avoid OAS Clawbacks

Description

Canadian seniors are getting some relief from the CRA to help them make it through the COVID-19 pandemic.

OAS bonus

Retirees who receive Old Age Security (OAS) get a one-time bonus of $300 — a payment designed to help seniors cope with rising costs associated with the pandemic. The $300 payment is automatic and will be sent out in the first week of July. In addition, the $300 bonus is tax-free and does not have to be reported as 2020 income.

Seniors who qualify for the Guaranteed Income Supplement (GIS) get an additional $200.

RRIF withdrawal reduction

Retirees have to convert RRSP holdings to RRIFs by December 31 in the year they reach the age of 71. Otherwise, the lump sum of the RRSP must be paid out. RRSP withdrawals are subject to income tax, so the removal of all of the money at once could trigger a large tax hit.

Funds can grow inside the RRIF tax-free, but the CRA requires a minimum amount of the RRIF to be paid out every year and these payments are taxed as income.

The CRA announced a special 25% reduction in the minimum RRIF withdrawal amount for 2020. The government acknowledged that many seniors saw the values of their RRIF holdings drop during the market crash.

Lowering the minimum withdrawal allows retirees to keep more of the funds invested and recover value as the economy improves and the market rebounds.

For example, a person who would normally need to receive $12,000 per year only has to receive $9,000 from the RRIF in 2020.

OAS clawbacks

The OAS pension recovery tax remains in place. This is a 15% clawback the CRA implements on net world income earned above a minimum income recovery threshold. The limit to stay under for the 2020 tax year is $79,054. The CRA reduces the OAS pension the following year by dividing the clawback amount into monthly reductions that are applied to the OAS as a recovery tax.

The 25% drop in the minimum RRIF withdrawal will certainly help some seniors keep net world income below the threshold level this year.

TFSA to the rescue

Finding extra income without being hit by additional taxes is always a challenge for Canadian seniors.

Company pensions, CPP, OAS, and RRIF payments all count as earnings and are taxable. One way, however, to get income that isn't counted toward the OAS clawback calculation is to generate it inside a Tax-Free Savings Account (TFSA).

Investments can grow tax-free when held in the TFSA and withdrawals aren't counted as income. Many seniors put their extra after-tax earnings from pensions into a TFSA.

The drop in the stock market in 2020 hit the share prices of many top-quality dividend stocks. As a result, dividend yields have surged. For example, **Enbridge** offers a 7% yield today. **BCE** provides a yield of 5.6% and **Bank of Montreal**, which has paid a dividend for 190 consecutive years, offers a yield of 5.5%.

Stocks come with risk, but risk-free GICs now only offer rates of 1-2%.

The bottom line

Canadian seniors are getting some relief in 2020. The OAS bonus is tax-free. The reduced RRIF withdrawal amounts can help retirees keep their net world income below the OAS clawback threshold.

The market is recovering, and opportunities exist to secure above-average yield in a TFSA from top-quality dividend stocks.

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