



Baby Boomers: The CRA Helps Seniors Avoid OAS Clawbacks

Description

The Canadian government and the Canada Revenue Agency (CRA) are [taking measures](#) to help citizens suffering from the financial impact of the coronavirus pandemic. In particular, senior citizens are vulnerable because of the virus because of their health and financial security.

The CRA is taking measures to ensure better economic circumstances for the most vulnerable citizens and avoid Old Age Security (OAS) clawbacks.

OAS bonus

Retirees receiving OAS will get a one-time \$300 bonus from the CRA. This payment is there to help seniors better manage their finances amid inflation caused by the onset of this pandemic. The \$300 payment will be sent to them in the first week of July. Seniors do not have to apply for it or meet specific criteria to qualify. The payment is automatic.

Additionally, the \$300 bonus is a tax-free payment, and they do not need to report it as part of their 2020 income. Seniors who qualify for Guaranteed Income Support (GIS) will receive an additional \$200 from the CRA.

RRIF withdrawal reduction

When you turn 71, you have to convert your Registered Retirement Savings Plan (RRSP) holdings into a Registered Retirement Income Fund (RRIF) by December 31 of that year. If you fail to do that, the sum of the RRSP has to be paid out.

Withdrawals from RRSPs are taxable income. Removing the entire amount at once could mean incurring substantial taxes. Any holdings you store in an RRIF can grow within the account tax-free. However, there is a condition that you need to withdraw a particular amount each year, and the payments are taxable income.

As an additional measure to help retirees with RRIFs, the CRA announced an exclusive 25% reduction in the minimum amount on RRIF withdrawals in 2020. The government is acknowledging the

challenging situation for many retirees, as their RRIFs shrunk in value due to the market crash.

A lower minimum withdrawal for the year can allow retirees to keep more of their funds within their RRIFs, so their capital can better recover value as the economy begins to improve.

OAS clawbacks

There is a 15% clawback that the CRA implements on net world income earned above a minimum income recovery threshold. This OAS pension recovery tax has remained in place. The limit is under \$79,054 for 2020. If your net world income as a retiree exceeds this amount, there is a 15% tax that the CRA will use to reduce your pension in the next year.

It will divide the clawback amount into monthly reductions that the agency applies to your OAS as a recovery tax. The 25% drop in minimum RRIF withdrawal for this year will substantially aid many seniors who want to keep their net world income below the limit this year to avoid the 15% OAS clawback.

Finding extra income

The Canada Pension Plan (CPP), OAS, RRIF payments, and company pensions can count as taxable earnings. Any earnings from your Tax-Free Savings Account (TFSA) are exempt from taxes.

Investments in your TFSA can grow tax-free, and your withdrawals are not subject to taxes. Seniors put their after-tax earnings from pensions into their TFSAs. You can use the tax-free status of your TFSA to create a revenue stream of passive income that is free from the CRA's clutches.

Consider adding assets like **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) to your TFSA to begin building a portfolio of dividend-paying stocks to provide you with the additional income. BCE is a long-time favourite among Canadian retirees. The communications giant enjoys a wide moat and generates stable revenue from its wireline and wireless networks.

The media revenue for BCE is taking a hit due to the pandemic, but it should rebound as the [economy recovers](#). The telecom company generates substantial free cash flow to support its dividend payouts to its shareholders. At writing, BCE is trading for \$56.62 per share, and it has a juicy 5.88% dividend yield that the company can easily finance.

Foolish takeaway

I think you should take advantage of the benefits being offered by the CRA to retirees this year. Additionally, you should also create a tax-free income through a healthy TFSA portfolio to gain more income that is free from taxation.

The BCE stock could be the ideal asset to begin building such a portfolio.

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Date

2025/09/11

Date Created

2020/06/17

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