Canada Revenue Agency: How to Generate $350 in Extra Monthly Pension Income and Avoid OAS Clawbacks

Description

On retirement, the Government of Canada provides residents with a monthly pension income. Retirees receive monthly payouts via the Canada Pension Plan and the Old Age Security (OAS) to help them lead a comfortable life.

The OAS is in fact the largest pension program in the country. In order to be eligible for the OAS payouts, you need to be a Canadian citizen or a legal resident and over the age of 65. You also should have resided in the country for a minimum of 10 years since the age of 18.

When is your OAS pension taxable?

The maximum monthly OAS payout for a Canadian pension holder is $613.53. This maximum annual OAS payout stands at $7,362.36. However, the Canada Revenue Agency (CRA) will tax your OAS in case your net world income is above the threshold amount of $79,054.

The Canada Revenue Agency will levy a 15% tax on OAS payments if your annual income is above the threshold limit. Further, if your annual income exceeds $128,137, the entire OAS pension will be recovered by the CRA.

So, how do you avoid the OAS clawback? Canadians can generate income under a Tax-Free Savings Account (TFSA). The TFSA is a flexible account, and any withdrawals in the form of capital gains or dividends are tax-free.

This will allow you to avoid or limit the clawback on the OAS payments as TFSA withdrawals will be excluded while calculating your annual income.

According to the CRA, the total contribution limit for your TFSA in 2020 stands at $6,000. For retirees eligible to contribute to this account since its inception in 2009, the contribution limit is $69,500. The TFSA can be used to allocate dividend-paying stocks with a monthly payout.

AltaGas has a forward yield of 6.05%

The recent market weakness has made energy infrastructure companies like **AltaGas** (TSX:ALA) attractive. Energy stocks have been impacted by the COVID-19 pandemic as well as low oil prices. It's a good time to go bargain hunting and buy companies trading at a lower valuation.

AltaGas is one such company with energy infrastructure assets of over $20 billion. It started out as a midstream business and has since expanded into the utilities space currently serving 1.6 million customers in the United States.

AltaGas' utilities business now accounts for 75% of revenue, providing it with stable cash flows in an uncertain environment. The company's exposure to the energy space has however weighed on its stock price.

AltaGas stock is currently trading at $15.86 which is 30% below its 52-week high. This pullback has meant AltaGas stock has a forward yield of 6.05%. So, if you invest $69,500 in AltaGas you can generate over $4,200 in annual dividends. As AltaGas pays a monthly dividend, you can generate a monthly passive income of $350.

The utilities business is recession-proof and generates a predictable stream of cash flows. AltaGas expects its utility base rate to grow between 8% and 10% in the next few years, which is encouraging.

Further, the company's midstream revenue growth stood at 52% year over year in the most recent quarter due to the addition of Ridley Island Propane Export Terminal (RIPET). Over 33% of RIPET's volumes are protected by long-term or take-or-pay contracts, making it one of the top stocks to own right now.

AltaGas is just an example of a top-quality dividend stock trading at a lower price. You need to identify similar companies and add them to your TFSA portfolio to generate tax-free monthly payouts and supplement your OAS.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
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Date
2025/07/07
Date Created
2020/06/19
Author
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