



CRA Update: Emergency \$300 Tax-Free Payment for OAS Retirees

Description

Canadians eligible for the Old Age Security (OAS) pension will receive a payment of \$300 by the Canada Revenue Agency (CRA). Further, seniors eligible for the Guaranteed Income Supplement (GIS) will receive an additional \$200. This means seniors eligible for the OAS and the GIS will receive a total of \$500 by the CRA.

This one-time payment will be disbursed during the week of July 6, 2020. This emergency benefit is targeted to help seniors cover increased costs arising due to COVID-19. The \$300 or \$500 emergency payment will be paid to the bank account for retirees enrolled for direct deposit. If you have not enrolled for direct deposit, you will receive a cheque.

The CRA will disburse \$500 each to you and your spouse if you are both eligible for the OAS and GIS pension plans. This disbursement [is non-taxable](#) and will be received in full without any withholding. You will not receive a tax slip from the CRA and will not have to report this amount while filing your 2020 tax returns.

Here's how OAS pensioners can generate \$300 a month in tax-free income

The OAS is Canada's largest pension program, and the maximum monthly pension payment for a 65-year-old for 2020 is \$613.53. This payment is hardly enough to lead a comfortable life in retirement. While the CRA has provided Canadian retirees with a temporary tax-free payout, you can generate \$300 a month by investing in the Tax-Free Savings Account (TFSA).

The TFSA is a [flexible registered account](#) and gaining popularity among Canadians. The contributions towards your TFSA are not tax-deductible, but any withdrawals in the form of capital gains or dividends are tax-free. The TFSA contribution limit for 2020 stands at \$6,000 and the total contribution limit for this account is \$69,500.

In order to generate \$300 in monthly income, you can consider dividend stocks or ETFs with a yield

over 5%.

This Canadian ETF has a dividend yield of 5.7%

Retirees looking to generate a predictable stream of passive income can invest in the **iShares Canadian Select Dividend Index ETF** ([TSX:XDV](#)). The XDV ETF has a forward yield of 5.71%. This means investing \$69,500 in XDV will generate \$3,968 in annual dividend payments or approximately \$330 in monthly dividends.

ETFs are an ideal vehicle to park your funds, especially for individuals who do not have the time or expertise to pick individual stocks. These funds have exposure to a basket of stocks across sectors, which lowers risk due to diversification.

The XDV looks to replicate the performance of the Dow Jones Canada Select Dividend Index. It is comprised of 30 of the highest-yielding, dividend-paying firms in the Dow Jones Canada Total Market Index. Below are the top holdings of the XDV with its respective dividend yields.

- **Canadian Imperial Bank of Commerce:** 6.2%
- **Royal Bank of Canada:** 4.7%
- **TC Energy:** 5.4%
- **BCE:** 5.8%
- **Emera:** 4.6%

Retirees can withdraw these dividends or reinvest them to benefit from the power of compounding. The XDV is trading at \$21.19, which is 21% below its 52-week high. If the market rebounds in the second half of 2020, investors will benefit from capital appreciation, resulting in multi-fold gains.

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