Canada Revenue Agency: How to Generate $445 in Extra Monthly Pension Income and Avoid OAS Clawbacks

Description

I hate to bring you bad news, but the Canada Revenue Agency (CRA) can levy a tax on your Old Age Security (OAS) pensions. The OAS is Canada's largest pension program that provides retirees with a monthly pension to help them live a comfortable life.

In order to be eligible for the OAS, the applicant needs to be a Canadian citizen or a legal resident above the age of 65. The OAS applicant should also have resided in the country for a minimum of 10 years since the age of 18.

When can the CRA tax your OAS?

The maximum monthly OAS payment for a Canadian is $613.53. However, if your net world income exceeds the threshold amount of $79,054, it will attract taxes from the CRA.

This CRA clawback stands at 15% if your annual income is above the threshold limit. The CRA also states if your income exceeds the $128,137 limit, your entire OAS will be recovered for the year.

So, how do you avoid the OAS clawback by the Canada Revenue Agency? One way is by delaying your CPP (Canada Pension Plan) payouts by a few years, which will lower your annual income. Another way is to generate income under a TFSA (Tax-Free Savings Account).

The TFSA is a Canadian registered account that is gaining in popularity due to its flexible nature. Any withdrawals from your TFSA in the form of dividends or capital gains are exempt from CRA taxes. Further, the Canada Revenue Agency will exclude TFSA withdrawals while calculating your annual income.

The TFSA was introduced back in 2009, and the cumulative TFSA contribution room stands at$69,500. This account is ideal to allocate quality dividend-paying stocks such as **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) that have a monthly dividend program.

Pembina Pipeline has a forward dividend yield of 7.7%

Shares of Pembina Pipeline are trading at $32.88 per share, which is 39% below its 52-week high. The recent pullback in share prices has meant Pembina stock has a forward yield of 7.7%. Pembina pays a monthly dividend of $0.21 per share, or annual dividends of $2.52 per share.

Investors are rightfully worried about low crude oil prices that have decimated companies in the energy sector. However, Pembina generates a significant portion of cash flows via its fee-based contracts, making its dividend payouts relatively safe, given its payout ratio of 60%. Further, over 80% of Pembina's supply agreements are with investment-grade counter-parties.

Its diversified business model has helped Pembina pay $4.5 billion in dividends to shareholders in the last five years. Additionally, the company has increased dividends at an annual rate of 5% in the last nine years.

While Pembina will continue to invest in expanding its pipeline infrastructure in the upcoming decade, this large-cap Canadian heavyweight has deferred US$1 billion in capital expenditures to improve short-term liquidity.

Pembina is a Dividend Aristocrat and has enough room to increase dividends in the future. If you invest $69,500 in this stock, you can generate up to $445 in monthly dividend income, which means annual dividends will be $5,340.

Pembina is just an example of a quality stock for your TFSA. It should be used as a starting point for your research, and you can identify similar stocks to diversify your investment portfolio.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

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