Canadian Seniors: 3 Ways to Avoid the 15% OAS Clawback

Description

Qualifying citizens and permanent residents of Canada automatically receives a universal retirement pension when they turn 65 years old. Unlike the Canada Pension Plan (CPP) however, you don't contribute or pay to receive the Old Age Security (OAS) benefit. As well, you'll still receive the benefit whether or not you contributed to CPP.

However, Canadian seniors earning income can receive lower OAS payments. The Canada Revenue Agency (CRA) deducts a recovery tax or the so-called clawback when net income exceeds a minimum income threshold. You get nothing when you reach the maximum income threshold.

The recovery tax is 15% of the excess income, although many retirees don't like giving up or paying back a portion of OAS benefits. There are ways to avoid or reduce the impact of the OAS clawback.

Take OAS at 70

Seniors have the option of deferring the OAS to enhance the benefit. OAS payments begin at age 65, but if you wish to delay, indicate in writing the start date when you apply for the OAS.

For every year of delay after 65, the benefit increases by 7.2%. To get the maximum 36% increase, you can defer your OAS until 70. Healthy retirees with no urgent financial need usually take this option. There's protection against longevity risk too.

But it's not the wisest decision if it will force you to dip into your retirement savings while waiting for the enhanced benefit. You might deplete your nest egg faster.

Stash your money in a TFSA

The Tax-Free Savings Account (TFSA) is an investment account that serves a variety of purposes. Canadians use the TFSA to establish an emergency fund or build retirement wealth. Similarly, it's a proven way to skirt the OAS clawback.

Any amounts you will earn, save, or withdraw are tax-free and will not impact on your OAS. Monitor your available contribution room, and don't commit the common mistake to keep your TFSA tax-free all the way.

Summit Industrial (TSX:SMU.UN) is among the safest and profitable investment options today. This $1.57 billion real estate investment trust (REIT) continues to strengthen its liquidity position, notwithstanding the health crisis. The occupancy rate in its portfolio of light industrial properties is a very high 98.7%.

Vacancies, rent deferrals and non-payment or payment moratoriums are the threats to the property leasing business during the pandemic. For Summit Industrial, however, only 1.65% of its total portfolio is vacant. It was able to collect an average of 90% of rent due for June 2020. The rest of the tenants have payment plans or free-rent arrangements with lease extensions.

In terms of earning potential, this REIT pays a 4.66% dividend. Your 2020 TFSA contribution limit of $6,000 can generate $279.60 in tax-free income. The advice is to maximize your TFSA to offset or minimize the OAS clawback.

Transfer your income

The last and most effective strategy to end your OAS clawback woes is to split your pension with your spouse. An OAS pensioner can transfer up to 50% of income to a spouse with a lower income.

If your income is in danger of going beyond the CRA's income threshold, the above strategies should work against the recovery tax.

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