



## Canada Revenue Agency: How Retirees Can Earn More Money and Avoid the OAS Clawback

### Description

The Canada Revenue Agency (CRA) has an income tax rule related to a clawback that is of particular concern for Canadians receiving Old Age Security (OAS) pensions.

### Canada Revenue Agency: OAS pension recovery tax rules

The CRA implements a clawback on OAS payments when net world income moves above a minimum threshold. For the 2020 tax year, this number is \$79,054. Every dollar of net world income earned above this amount triggers a \$0.15 OAS pension recovery tax. The CRA reduces the OAS payment in the following year.

In the case where a retiree's net world income tops \$128,137 for the 2020 tax year, the full OAS pension will be subject to the clawback.

### Canada Revenue Agency: Old Age Security Return of Income form

The CRA calculates the the repayment amount based on the income you report on your Old Age Security Return of Income form. This is sent out by the CRA every January. Seniors have to return the form to the CRA by April 30 to avoid having their OAS payments cut off beginning in July.

The total OAS pension repayment is divided into monthly amounts and then deducted from the OAS payments as a recovery tax.

### Canada Revenue Agency: How to boost income and avoid the OAS clawback

The CRA considers most sources of income as taxable and eligible for the net world income calculation. Work pensions, CPP, OAS, RRIF payments, RRSP withdrawals, rental income, earnings from a part-time job, and income from investments held in taxable accounts are all fair game for the CRA.

However, the Canada Revenue Agency gives seniors a break on income generated inside a Tax-Free Savings Account (TFSA). At its inception in 2009, the TFSA limit was so small that it didn't have much of an impact. Now, the TFSA cumulative contribution limit is up to \$69,500 per person. That gives a retired couple \$139,000 in investment space to earn tax-free income.

## Best stocks to buy in a TFSA

Retirees want to get the best return possible on their savings. This has to balance out with the need to protect the capital invested to generate the income.

Stocks carry risk, but they offer the best returns right now, and many [top dividend](#) payers currently trade at attractive prices.

It makes sense to seek out companies that provide essential services. Ideally, they pay dividends that continue to grow during the recession. For example, **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) might be an interesting pick to start the [income fund](#).

## Fortis overview

Fortis owns power generation, electric transmission, and natural gas distribution assets. The company is based in eastern Canada, but the businesses are located across the country as well as in the United States and the Caribbean.

Nearly all of the revenue comes from regulated assets. This means revenue and cash flow should be predictable and reliable. The company grows through acquisitions and internal development projects. Fortis is currently working through a capital program worth nearly \$19 billion that will significantly boost the rate base in the coming years.

The board intends to increase the dividend by an average of 6% per year through 2024. The distribution currently provides a yield of 3.5%.

The stock tends to hold up reasonably well when the broader market takes a hit. As such, owning Fortis shouldn't keep you up at night.

## The bottom line

The TFSA is a great tool to help seniors earn more income and avoid a CRA clawback on OAS payments.

Getting an average yield of 5% on a conservative portfolio should be easy today and the **TSX Index** is

home to many top dividend stocks.

A 5% return would provide a retired couple with \$6,950 in annal tax-free income on a combined portfolio of \$139,000.

## CATEGORY

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

## PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

default watermark

## Category

1. Dividend Stocks
2. Investing

## Tags

1. Editor's Choice

## Date

2025/09/14

## Date Created

2020/08/07

## Author

aswalker

default watermark