Canada Revenue Agency: How to Earn an Extra $312.75 Per Month and Avoid the OAS Clawback

Description

Canadian retirees who collect Old Age Security (OAS) want to avoid the OAS pension recovery tax. This is also called the CRA's OAS clawback.

What is the OAS clawback?

Once net world income tops a minimum threshold, the CRA implements a pension recovery tax on OAS payments. The tax is applied against the OAS pension in the following year. Depending on how high a retiree's income goes above the minimum level, the full OAS could be clawed back.

For the 2020 tax year, the number to watch is $79,054. Every dollar of net world income above than amount triggers a 15 cent clawback. In effect, you pay back 15% of the difference between your net world income and the minimum threshold.

When income hits the maximum income recovery threshold, which would be $128,149 for the 2020 income year, the full OAS pension would be recovered in the 2021-2022 OAS payment year.

Earning $79,000 per year in retirement is a decent income and you might think very few people would have to worry about the OAS clawback, but that's not necessarily the case.

A person who collects full CPP, OAS, and a good company pension could easily top the minimum income threshold. In addition, money received from RRSPs, RRIFs, side gigs, a rental property or investments in taxable accounts gets added to the total.

The CRA helped seniors out a bit this year by reducing the minimum RRIF withdrawal by 25%. However, this is not a permanent change.

Life isn't getting any cheaper, and many retirees with decent pension income are still feeling the pinch every month. As a result, it is important to safeguard the OAS as much as possible.

How to use the TFSA to protect OAS payments

One way to earn more money and avoid the OAS clawback is to generate the income inside a TFSA. The TFSA cumulative contribution limit in 2020 is as high as $69,500. That means a retired couple could generate tax-free income on $139,000 inside the TFSA.

GICs don't pay much any more, so many income investors are turning to dividend stocks to boost returns. This adds risk, as stock prices can fluctuate, but there really isn't another attractive option at this point.

Fortunately, the **TSX Index** is home to a number of top-quality dividend stocks that pay attractive and growing distributions that should be very safe. Several of these stocks currently trade at cheap prices due to the market turmoil this year.

Best stocks for a TFSA income Fund

Companies such as **BCE**, **TC Energy**, and **Royal Bank** might be good stocks to get started. All three are leaders in their respective industries and have long histories of paying investors reliable dividends. BCE currently provides a dividend yield of 6%. TC Energy offers a yield of 5.7%, and Royal Bank's dividend yield is 4.5%.

An equal investment in all three stocks would generate an average yield of 5.4% today. This would provide annual tax-free income of $3,753 on a $69,500 TFSA portfolio. That's $312.75 per month.

A retired couple could earn $625.50 per month and not worry about triggering the OAS clawback.

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