



Canada Revenue Agency: How Retired Couples Can Earn an Extra \$579 Per Month and Protect Against the OAS Clawback

Description

The CRA implements a pension-recovery tax, or clawback, on OAS when net world income gets too high. As a result, Canadian retirees who receive Old Age Security (OAS) pensions face a unique tax challenge.

OAS clawback rules

The OAS clawback kicks in when net world income hits \$79,054 for the 2020 tax year. The top end of the threshold is \$128,149.

How does it work?

Every dollar earned above the minimum threshold results in an OAS pension recovery tax of 15 cents. The tax adds up until net world income reaches the upper threshold. At this point, the full OAS pensions gets clawed back in the following year.

So, a retiree who collects OAS and earns \$109,054 in net world income in 2020 would see a 15% OAS clawback implemented on \$30,000. That's \$4,500!

Retirement income of \$79,000 sounds big. It is certainly a decent amount. However, this puts a person in a high marginal tax bracket, so the amount that is left over for living expenses after the CRA takes its cut is much smaller.

In addition, life isn't getting any cheaper for retirees. The CRA increases CPP and OAS, according to changes in the Consumer Price Index (CPI). Unfortunately, this hardly seems to be enough to keep up with rising costs many people face.

The CRA taxes most forms of retirement income. The CPP and OAS pensions are taxed. So are company pensions, [RRSP withdrawals](#), and payments from RRIFs. Seniors received a bit of relief this year with a 25% drop in the minimum RRIF withdrawal requirement, but that's likely to be a one-off

adjustment.

On top of this, earnings from a part-time job get added to the net world income calculation. People are encouraged to diversify their retirement-income streams, but they risk a double hit by the CRA. The extra income can push you into a higher tax bracket and also trigger the OAS clawback.

TFSA to the rescue

Fortunately, retirees can earn tax-free income inside a [TFSA](#) that remains beyond the reach of the CRA and isn't used to determine potential OAS recovery taxes.

In 2020, the maximum TFSA contribution space is \$69,500 per person. This gives a retired couple as much as \$139,000 in investment room right now to generate an income stream that sits beyond the reach of the CRA's OAS clawback.

GIC returns are terrible these days, so many pensioners are buying [dividend stocks](#) to take advantage of attractive yields. Owning stocks carries risk, as the share prices might fall below your purchase price. However, the yields investors can now get from top-quality Canadian dividend stocks help offset the added risk.

Best stocks for TFSA income

Companies with long track records of paying steady or rising dividends through tough times deserve to be on your radar.

TD Bank ([TSX:TD](#))([NYSE:TD](#)) would be a good example. The company remains very profitable in the current environment, and the dividend should be rock solid. Investors who buy TD stock today can pick up a 5.25% yield.

The bank has survived every major financial crisis in the past century and will get through the pandemic. In fact, buying TD during market corrections has proven to be a rewarding long-term investing strategy.

The bottom line

A balanced TFSA portfolio is always recommended, and the **TSX Index** is home to many top dividend stocks that trade at attractive prices right now and provide great yields.

Getting an average yield of 5% from some of Canada's best dividend stocks is possible today. This would provide a retired couple with \$6,950 per year in tax-free dividend income that wouldn't bump them into higher tax brackets or put OAS pensions at risk of a CRA clawback.

That's an extra \$579 per month!

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