Canada Revenue Agency: How to Earn an Extra $324 Per Month and Avoid the OAS Clawback

Description

Canadian retires receive federal benefits such as the Old Age Security (OAS), which is the country's largest pension program. However, the Canada Revenue Agency can also levy a pension recovery tax on your OAS, which is known as a clawback.

What is the OAS clawback?

If you have a net world income that is over the minimum threshold, the Canada Revenue Agency (CRA) will implement a recovery tax on your OAS pension payouts. This tax, or clawback, is applied against the OAS pension in the following year.

For the 2020 tax year, the minimum threshold amount for your net income is $79,054. This means you will pay back 15% of the difference between your net income and the minimum threshold as part of the clawback.

So, if your net income is $85,000, the clawback will be 15% of $5,946 ($85,000-$79,054), or $892. We can see that every dollar of net world income above the threshold amount triggers a clawback of 15 cents.

So, if your net income is above the maximum threshold limit of $128,149, the CRA will recover the full OAS pension in the 2021-2022 OAS payment year. While earning over $79,000 annually in retirement is a good problem to have, it also makes sense to reduce taxes and the financial burden along the way.

A retiree who receives a company pension and collects the maximum available OAS, as well as CPP (Canada Pension Plan) payments, may have a net income over $79,000 per year. There may also be income from other sources that include, RRSPs, RRIFs, rental property, and other investments.

As the cost of living continues to increase, especially in major cities such as Toronto and Vancouver, it is important to safeguard OAS payments and reduce the CRA clawbacks.

Leverage your TFSA and protect OAS payments

One way to reduce the OAS clawback is to generate income in a TFSA (Tax-Free Savings Account). Any withdrawals in the form of dividends, interests, and capital gains from the TFSA are exempt from CRA taxes. This makes it an ideal account to hold blue-chip dividend-paying stocks that have large economic moats.

The cumulative TFSA contribution limit in 2020 for an individual stands at $69,500, which means a retired couple can allocate $139,000 in this registered account. While the equity markets remain volatile in 2020, the recent sell-off has allowed investors to buy quality stocks at a lower valuation.

We'll look at some of Canada's top dividend-paying stocks with their respective forward yields that will generate stable and recurring income for retirees. Canada's top dividend stocks include:

Royal Bank of Canada: 4.7%

Toronto-Dominion Bank: 5.4%

Bank of Nova Scotia: 6.5%

Enbridge: 8.7%

TC Energy: 5.9%

BCE: 6%

TransAlta Renewables: 5.4%

Fortis: 3.7%

Telus: 5%

Northwest Healthcare: 6.9%

Brookfield Renewable Partners: 3.2%

The Foolish takeaway

So, an equal investment in these 11 stocks will generate an average dividend yield of 5.6%. This means a $69,500 investment in these top TSX stocks will generate $3,892 in annual dividend income, or a monthly payment of $324. For retired couples, this payout will double to $648 a month.

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