CRA to Retirees: Earn an Extra $272.00 Per MONTH and Avoid Clawbacks

Description

If you've decided to retire this year, it's likely the hardest time to do so in almost a century. It was already difficult, having to put all that cash aside and wait for the right time to retire. Now, you have a pandemic that has created layoffs, industry failings, and business closures across the world. So where does that leave you?

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It leaves retirees worried that not only will they be worried about making ends meet, what will they do about the penalties from the Canada Revenue Agency (CRA)? One of these penalties is known as the infamous clawback.

What is the clawback?

The clawback is connected to Old Age Security (OAS). It is a pension recovery tax for net income that exceeds a threshold. For the 2019 income year that threshold is $77,580. If you pass this threshold, you then have to pay the recovery tax, also known as the clawback. That tax comes in at 15% of the difference between your net income and the minimum threshold.

If you make $100,000 for the year, you subtract $77,580 for a total of $22,420, then you take 15% of that amount, which is $3,363, and that is your clawback. Where it gets annoying is when you take OAS into consideration. For 2020, retirees would be paid $613.53 maximum for OAS per month, which comes to $7,362,36 for the year. Minus your clawback, that would be only $3,999,36 for the year.

While that $77,580 can sound like a lot, you have to remember that as a retiree, you have a lot of other sources of income coming in. There's your RRSP, your CPP, and other sources of revenue that you must claim to the CRA. Each and every one will be taxed, and it would influence your clawback.

So what can you do to avoid the clawback, and still bring in extra income? Create passive income through your Tax-Free Savings Account (TFSA).

TFSA for tax-free income

If you don't have a TFSA already, get one. This is the best chance of bringing in passive income after retirement. All you have to do is find the right stock to get you there. While bonds and GICs were great options in the past, as a retiree each simply will not bring in significant cash these days. Your best bet is to find a safe, stable dividend stock with solid growth potential.

That's why I would recommend a bank stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). TD Bank has over a century of historical performance to look back on, coming through each economic downturn strong. It also has diversified its portfolio to take on wealth and asset management, and spread into the United States where it is now a top 10 bank in the country. Meanwhile, it sports a 5.29% dividend yield, which is usually unheard of given the current economic downturn.

If you lock in this dividend yield today and use $60,000 of your $69,500 TFSA contribution room, you could bring in $3,269 in passive income each year. That works out to about $272 per month! Usually, you would need to invest a lot more to bring in income like that from a stock like TD Bank.

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Date
2025/07/08
Date Created
2020/10/29
Author

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