CRA: How to Avoid the OAS Clawback and Earn a 50% Bonus

Description

The COVID-19 pandemic left many Canadians unemployed. Many companies downsized, and both young and old were left jobless. However, if you are above 65, you have an option to claim the Old Age Security (OAS) pension from the Canada Revenue Agency (CRA).

If your 2019 net income was below $77,580, you can get $614 in a monthly OAS pension. Generally, the CRA enrolls you for OAS automatically, but if it doesn't you can apply for it. If CRA gives you a benefit, it can also take it back if you are no longer eligible for it.

How can the CRA claw back your OAS?

The CRA is giving OAS to low- and mid-income earners. Given that you have worked all your life and your expenses increased in old age, the CRA gives the $614 monthly pension to those who earned less than $77,580 in 2019. This is not a small amount. But then the CRA also taxes you heavily, which leaves you with a lot less income at your disposal. If you earned above $126,058 in 2019, you are not eligible for OAS.

The CRA taxes your OAS payment by adding it to your taxable income. While taxes are an indirect way of taking back OAS pension, the CRA has a direct way to claw back your OAS.

The CRA will claw back OAS at the rate of 15% on the income earned above $77,580 and below $126,058. For instance, Jack is 67 and is receiving $614 in OAS pension every month. He filed his 2019 tax returns in September, where his income was $97,580, which means he earned $20,000 more than the minimum income recovery threshold. The CRA will claw back $3,000 ($20,000*15%) of his OAS pension, which equates to $250 every month.

OAS pension recovery tax

The CRA won't stop with just one year of OAS clawback. It will add the recovery tax element to your next year's OAS pension. Continuing on the above example, Jack will now receive $364 in monthly

OAS payment ($614-$250), as the CRA will deduct $250 in the OAS pension recovery tax. This recovery tax is in addition to the personal income tax Jack will pay on the $364 OAS payments.

How to avoid OAS clawback

There is no direct way to avoid OAS clawback. A smart way to avoid it is by using a Tax-Free Savings Account (TFSA). The CRA levies tax on TFSA contributions but exempts the withdrawals. If you have $30,000 in surplus, invest this amount in **RioCan REIT** (TSX:REI.UN), which has a dividend yield of over 9.9%.

RioCan is currently in a tight situation, as the pandemic-driven lockdown has reduced its occupancy rate to 96%, although its gross rental income has improved from the second quarter. Looking at the REIT's cash flows and balance sheet liquidity, its annual dividends are safe.

Going back to my previous example, Jack's $30,000 investment in RioCan will earn him $2,982 in annual dividend income, or approximately $250 per month. This way, the $250 OAS clawback will be negated by the $250 tax-free dividend income earned in TFSA.

Get a bonus on your investment income

RioCan stock has more to it than dividends. The stock is currently trading at a 46% discount. When the economy recovers and the REIT increases its occupancy rate by signing new leases, its stock will recover to the pre-pandemic level of $27, representing an 80% upside. The recovery could take three to five years.

So, your $30,000 investment in RioCan today will convert to $54,000 in 2023. This is like a $24,000 loyalty bonus for staying invested in the stock for three years. Even if I take a conservative estimate of a 50% upside where the stock price rises to $22, you can get a $14,000 bonus, and the CRA cannot claw back this bonus.

CATEGORY

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2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
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