



CRA to Retired Couples: Earn an Extra \$227 Per Month Without Clawbacks!

Description

You have to be really careful when considering retirement. It sounds so simple when you're young. You simply work long enough, save enough money, and retire to a peaceful life of leisure. Unfortunately, if you're relying on some government money for your retirement income, it doesn't end up so easy.

The clawback

One of those government payouts is through Old Age Security (OAS) payments. These payments come every month to retired Canadians, but are subject to clawbacks. Clawbacks, also known as the recovery tax, are taxes taken back if your net income exceeds \$77,580 as of writing. The tax comes in at 15% of anything over this amount.

That adds up to a lot of cash. Let's say you earned \$95,000 in net income. That creates a difference of \$17,420, for a tax of \$2,613! So are OAS payments even worth it?

Canadians can receive up to \$614.14 per month in OAS payments, starting when you're 65. If you delay those payments, that number can be higher, but it's usually around this amount. That would create annual income of \$7,369.68. Minus the clawback, that's \$4,756.68 from OAS. That's quite the cut, and also brings up your net income on your tax return!

And it's not just OAS. Once you factor in the Canada Pension Plan (CPP), Registered Retirement Savings Plan (RRSP), and other forms of revenue, suddenly your tax bracket is a lot higher! That means you're taking on more taxable income, and that all affects your clawback.

So what can you do to avoid the clawback while still receiving retirement income?

The TFSA

I'm hoping if you're even thinking about retirement you already have a Tax-Free Savings Account

(TFSA). The TFSA, created back in 2009, added contribution room every year during the last 11 years. Today, that total contribution limit is now at \$69,500. That's \$69,500 worth of room to make investments and bring in returns and dividend income absolutely tax free.

Yes, even if you take out cash from your TFSA, that doesn't count as income. You can pop that into your savings whenever you want and don't have to claim a cent. You're investing in Canadian companies, and that incentive is what keeps the CRA off your back.

But I get it. You don't want to just go investing in risky stocks in your retirement. You're retired! You need that cash to live off of now that you're not working. You need a safe, solid stock that has almost guaranteed returns and dividend payouts. If that's the case, I would go with **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)).

Royal Bank is Canada's largest bank by market capitalization, with over a trillion dollars in assets as of writing. While the pandemic has been hard on the bank, with [revenue](#) dropping during the last few quarters, the bank was prepared. Management knew a downturn was coming, and prepared by creating cash flow through a number of investments.

Royal Bank expanded into emerging markets like Latin America for extra cash. It also has its strong wealth and commercial management sector to pick up the slack. Once the downturn is over, the bank will surely rebound as it has during the last few economic downturns. In fact, it's still up by 55% over the last five years, with a dividend yield that recently increased to 4.64%.

Bottom line

Investing just \$60,000 of your \$69,500 would bring in tax-free passive income of \$2,728 each year! It's likely you have about that amount saved up, and you could even use your OAS and CPP payments to make these investments. Now, you've turned your savings into a tax free, passive-income powerhouse — clawback or no.

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Author

alegatewolfe

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