Canada Revenue Agency: Avoid the 15% OAS Tax by Doing These 3 Things

Description

Canadian taxpayers will soon be preparing their tax returns for the income year 2020. Some seniors eligible for Old Age Security (OAS) might receive notice after assessment by the Canada Revenue Agency (CRA) that their incomes are subject to a “recovery tax.”

The unpleasant surprise is known as the 15% OAS clawback, and the concept is simple. An individual taxpayer’s OAS benefit reduces if net income exceeds the minimum income threshold for the year. The CRA will recover 15 cents for each dollar of income above the threshold.

The income recovery thresholds change each year. For 2020, the minimum is $79,054, while the maximum is $128,149.

Example: Your income for 2020 is $90,000

$90,000 – $79,054 = $10,946.00

$10,946 x 0.15 = $ 1,641.90

You would have to repay $1,641.90 for July 2020 to June 2021 recovery period (CRA deducts $136.83 monthly from your OAS benefit). If income reaches the maximum threshold, the OAS benefit reduces to zero.

The 15% OAS clawback is embedded in the government-sponsored retirement income system but is avoidable if you do three things.

1. Defer OAS

You can wait until you turn 70 to claim your OAS. Your monthly pension will increase by 0.6% for every month of delay, which translates to 36% more benefit. This strategy works best if your income is high between the ages of 65 and 70.

2. Split the pension

Consider splitting the pension if your spouse's or common-law partner's income is significantly less than your income. You can split up to 50% of your Canada Pension Plan (CPP), Registered Retirement income fund (RRIF), annuity income, or pension income to ensure you don't reach the threshold.

3. Get the CPP incentive

The CPP offers an incentive if you elect to take it also at age 70. You'll receive 42% more than if you were to claim at age 65. Furthermore, you would have less income from age 65 to 70. Usually, seniors without health issues or urgent financial need prefer this option.

Lessen your tax burden

If you want to go all the way, not just reduce the OAS clawback, optimize your Tax-Free Savings Account (TFSA). By moving your savings or non-registered investments into your TFSA, investment income from the account is untouchable by the CRA.

Assuming you have $6,000 free cash and haven't used your 2020 TFSA contribution, invest in a high-yield real estate investment trust (REIT) like **SmartCentres** (TSX:SRU.UN). This $4.25 billion REIT pays a fantastic 7.61% dividend. Your capital will deliver $456.60 in tax-free income.

Billionaire Mitch Goldhar, chairman of SmartCentres, is responsible for bringing **Walmart** to Canada. The REIT owns and operates 168 properties, where 115 are Walmart-anchored centres. Smaller retailers and service-oriented tenants are benefit from this long-standing relationship, because the anchor tenant drives traffic to their respective businesses.

With 256 mixed-use development underway, SmartCentres can potentially add $1.4 billion of value. Thus, for only $24.99 per share, you're riding on the REIT's growth momentum.

Minimize the clawback's impact

The federal government supports the OAS program from its tax revenues. However, if the 15% OAS clawback will hurt financially, use the three avoidance measures. All are proven ways to minimize the impact of the recovery tax.

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