CRA Hack: How Retired Couples Can Earn an Extra $506 Per Month and Avoid the OAS Clawback

Description

Retired couples will need as much as they can upon retirement. If you're already retired, you're probably totally aware of Old Age Security (OAS) clawbacks. But if not, here I'll give you a brief overview of you can make back tax-free income.

An OAS overview

OAS is money given out by the Canada Revenue Agency (CRA) once a month to retirees. Once you hit 60, you are eligible to start collecting OAS. But, as with most things, there is a catch. The OAS has a recovery tax, also known as a "clawback." This clawback comes into affect as soon as you reach $79,054 of annual income. Once you hit that mark, every dollar afterwards is subject to a 15% tax that goes back to CRA.

This continues until you reach the maximum amount for OAS eligibility. Once you reach $128,149 per year in income, the OAS no longer applies. That's because every cent you would have received from OAS would have been "clawed back" by the 15% tax.

While almost $80,000 sounds like a lot, remember: you are receiving income from a number of places. And you're retired! Every penny you can save counts. You have to count your Registered Retirement Savings Plan (RRSP) income, your Canada Pension Plan (CPP), a pension you might receive from work, and of course OAS on your tax returns.

Solution: reduce your income!

If you aren't yet retired, there is a way to bring down your annual income in retirement by taking out money from your RRSP ahead of time! I know — that money is meant to be saved for retirement — and so it should be. I'm not saying spend it. Rather, I'm saying put it elsewhere!

If you take out just $5,000 per year before retirement, you are subject to a 10% withholding tax. That's already less than the clawback. If you can stay under that number and put it in your Tax-Free Savings Account (TFSA), you can invest in the exact same thing as your RRSP if you want! Then you're making returns completely tax free for your retirement.

Now I wouldn't do this until you're a few years away from retirement, not decades. But it's definitely something to keep in mind. This would bring your overall annual income down to a much lower level, and keep OAS payments much higher! Meanwhile, you still have available all the cash you invested, and can take it out any time tax free!

My recommendation?

Whether it's your TFSA or your RRSP, a company like **Telus Corp.** (TSX:T)(NYSE:TU) is a great company to consider. Telecommunication companies will be around for decades to come. But Telus is ahead of the rest, investing in wireline across Canada before the pandemic. Now, it's the best suited for the increase in use of 5G, and can get faster internet to people. This means it can charge higher prices, but the cost of implementing the program is behind it!

You wouldn't even know the economy has slowed looking at Telus. Its latest earnings came in at an increase of 4.2% year over year. It's stock has had a 49% return in the last five years and boasts a 12% compound annual growth rate (CAGR) for the last decade!

And, of course, it has a solid dividend. If retired couples invested $60,000 each in their TFSA contribution room limit of $69,500 in Telus today, they could bring in $6,073.52 annually in dividend income. That's $506 per month – and that's without including returns!

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