Earn a Tax-Free $666 Per Month With No OAS Clawback

Description

Canadians can take advantage of a lot when they retire. However, there is a limit to everything. The largest program used by Canadians upon retirement is the Old Age Security (OAS) program. This program gives out money each and every month to retirees. However, those payments can be subject to a pension recovery tax.

About the tax

This pension recovery tax is also known as the “clawback,” for obvious reasons. As soon as retirees reach $79,054 in annual income reported on a tax return, they are subject to a 15% clawback. For every dollar past that point you must pay $0.15 back to the Canada Revenue Agency (CRA). That is, until you reach $128,149, when the OAS payments would be all paid back any way. Suddenly, that $614.14 a month and $7,369.68 per year doesn’t look so appealing.

And $79,054 isn’t exactly a lot to live on. This would be subject already to about 30% in taxes for the year. So now you’re paying back the CRA, you’re paying for a reasonable living wage, and you need to make this money last! You’re retired, and the idea is you don’t have to go back to work to pay taxes!

So, perhaps there is another way.

RRSP vs. TFSA

If you have a Registered Retirement Savings Plan (RRSP) there is a way to bring down your annual income. First, if you’re thinking of retiring in the next decade, let’s say, then each year you can take out $5,000 and only be subject to a 10% withholding tax. You can then place that money in your Tax-Free Savings Account (TFSA) and continue to see your returns grow.

If you’re younger, think about taking out cash when you’re able to tax free. This can happen if you’re on parental leave, when you go to school, or when you buy your first home. Just make sure you continue to contribute to your RRSP, as those payments will bring down your annual tax return at the end of the year. And again, place that cash firmly in your TFSA and leave it alone!

What to do with it?

The idea is to both save your OAS payments to make them reach that maximum amount. On top of that, you want to invest in something to will give you your own passive income in retirement. A great option to consider in this case is **NorthWest Healthcare Properties REIT** (TSX:NWH.UN).

NorthWest invests in properties around the world involved in the healthcare industry. These properties sign on for multi-year leases, with the company at about 99% occupancy right now; unheard of in the real estate industry. It also continues to see revenue rise, jumping to 10.8% year over year in the latest quarter.

And of course, it offers strong dividends. Right now, investors can take advantage of a 6.48% dividend yield that risen at a compound annual growth rate (CAGR) of a whopping 46% in the last five years! This as shares have seen a 108% increase in the last five years, and a CAGR of 15.88% in the same time period.

Bottom line

If you were to take $60,000 from your TFSA contribution limit of $69,500 and put it in this stock, you would have $333 in monthly income per month, or $4,000 per year. If your partner did the same thing, that would obviously double! That's $8,000 per year, and $666 per month!

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1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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