CRA to Retirees: 2 Ways to Avoid the OAS Clawback

Description

Retirees in Canada get two kinds of pension: The CPP and the OAS. Since both of them come from the government, many people assume that the bill for both is being picked up by the government. But that's not the case. The CPP is funded by people who are working, while the OAS is a government benefit for retirees.

Another difference is the clawback. While there is no clawback with CPP, if your yearly income exceeds a certain amount, you have to pay some or your entire OAS pension back. It's the same principle that the CRA is applying to the CRB benefit. The threshold for OAS clawback changes every year. For the income year 2019, the recovery tax period started from July 2020 and will end in June 2021. The minimum threshold here is $77,580.

If your yearly income exceeds that amount, you will be subjected to OAS clawbacks. There are two ways you can get around these clawbacks.

Go halves with your better half

If you are 65 years or older, you can lower your taxable income by a significant margin by splitting it with your spouse, especially if their annual income is lower than yours. But you have to ensure that the additional income they are getting thanks to your income splitting doesn't enhance their tax obligation too much. RRSP, RRIF, and life annuity are three of the qualifying payments that you can split to lower your taxable income.

Lean heavily on your TFSA

You will truly appreciate the potential of the TFSA if you retire with a significant portion of your retirement savings/assets residing in that tax-free account. The more you can draw from it, the less you'll have to draw from other sources, like the RRSP or RRIF, which is taxable income. This way, you can spend as much as you want for a cozy retirement without increasing your taxable income and suffering from OAS clawbacks.

TFSA nest eggs

One stock that might help you grow a decent-sized nest egg in your TFSA is **Boyd Group Services** (TSX:BYD). The stock has been consistently growing for the last two decades. If you had invested just $1,000 in the company about 20 years ago and reinvested the dividends, you'd now be sitting at a $300,000 nest egg.

Even if the company keeps growing its market value by 20% a year, which is less than half its 10-year compound annual growth rate (CAGR), one year's TFSA contributions, that is, $6,000, can grow up to $230,000 in two decades. And that's just one stock. The company runs collision repair centres in the U.S. and has one of the largest networks in North America.

Foolish takeaway

Some retirees, especially those with significant retirement funds, might disregard the importance of CPP and OAS, but that's a mistake. No matter how sizeable your retirement savings and investments assets are, they are a depleting reserve. But your OAS and CPP pension will be with you till the end. It's a good idea to defer receiving retirement payments so you can get a higher monthly amount.

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