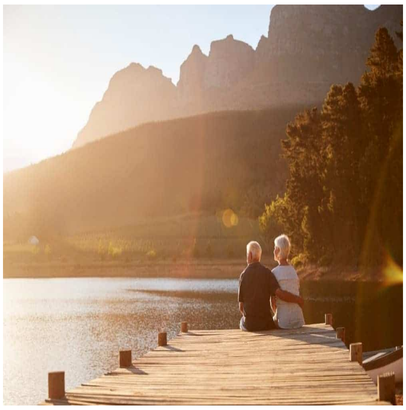

Canada Revenue Agency: How to Earn an Extra $692 Per Month and Avoid the OAS Clawback

Description

Canadian seniors face some unique tax challenges when it come to the OAS clawback.

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OAS clawback 101

The Canada Revenue Agency implements a pension recovery tax on OAS payments once a person's net world income moves above a minimum threshold. The target to watch in the 2020 income year is $79,054. Every dollar above that amount triggers a 15 cent clawback on OAS payments. The tax continues until the full amount would be recovered.

So, a retiree who collects OAS and has net world income of $99,054 in 2020 would see their OAS reduced in the next pay period by $3,000.

To many OAS recipients, the clawback doesn't seem fair. People are encouraged to work hard and save for their retirement. The ones who get pension income from a number of sources are most likely to be hit by the OAS recovery tax. Company pensions, RRSP withdrawals, income from investments in taxable accounts, rental income, and earnings from a part-time job all get added to the total. In addition, CPP, OAS, and RRIF payments count towards the net world income total.

In many cases, it doesn't take long for a senior to top the $79,000 mark. That sounds like a decent amount, but life isn't getting any cheaper. Once all the federal and provincial income taxes are paid, the amount left to cover living expenses might make things tight in some months. This is particularly true when retirees are still carrying a mortgage.

TFSA solution to the OAS clawback

The TFSA offers seniors a way to earn extra income that won't put their OAS at risk of a clawback. In 2020, the cumulative TFSA contribution space is $69,500. The TFSA limit increase in 2021 will likely be $6,000. That means a retiree would have as much as $75,500 in TFSA room next year. A couple could have $151,000.

All interest, dividends, and capital gains earned inside the TFSA remain beyond the reach of the CRA. Any cash removed from the TFSA is not counted towards net world income. This means retirees can set up a TFSA income stream that won't push them over the OAS clawback threshold.

Best TFSA investments

GICs barely pay 1% these days, so most income investors are turning to dividend stocks. Owning shares in companies carries risk, but the best dividend payers normally ride out downturns without an impact on their payouts. The stock prices usually recover quickly. Many top dividend stocks continue to increase the distributions in difficult times.

TC Energy and **Telus** are good examples.

TC Energy is a major player in the North American natural gas transmission industry. The company has a large secured capital program that should support solid cash flow growth in the coming years. The board intends to raise the dividend by 8-10% in 2021 and by 5-7% per year in 2022 and beyond. The current payout provides a 5.6% dividend yield.

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Telus is one of Canada's top providers of mobile, internet, and TV services. The company also has a rapidly growing digital health business. Telus avoided the temptation to spend billions of dollars on media assets such as sports teams and TV networks. The decision helped it avoid the hit its peers took this year on falling media revenues.

Telus just raised its dividend and typically increases the payout every year. The existing distribution offers a 5% yield.

The bottom line

TC Energy and Telus should be solid picks for a diversified TFSA income fund. The **TSX Index** is home to many top dividend stocks, and investors can easily create a portfolio that provides a 5.5% yield. This would generate $8,305 per year on $151,000. That means a retired couple could get $692 per month in tax-free income that won't trigger the OAS clawback!

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