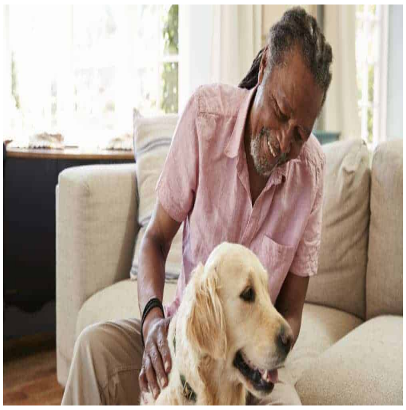

Canada Revenue Agency: How to Avoid the OAS Clawback in 2021

Description

Old Age Security (OAS) is a monthly payment you can receive in Canada if you are 65 and older. Service Canada should inform you if you have been automatically enrolled. Otherwise, Canadians can apply for the OAS. The OAS is a taxable benefit, which means you need to pay a cut to the Canada Revenue Agency.

In the beginning of 2020, I'd discussed how retirees could retire in comfort with just CPP and OAS payments. However, it is always preferable to add extra income to this duo. Another drawback is the OAS clawback. Today, I want to discuss how you avoid that drawback and duck the Canada Revenue Agency.

Canada Revenue Agency: How OAS works in Canada

The maximum monthly benefit for the OAS is $613.53 in 2020. That works out to an annual maximum of $7,362.36. However, the OAS clawback requires high-income earners to repay some or the entire OAS pension. The Canadian government refers to it as OAS recovery or OAS repayment. In any case, some Canadians are forced to fork over more to the Canada Revenue Agency.

In 2020, the OAS clawback starting threshold is $79,054. Canadians who have prepared well for retirement and are collecting income from a pension, and RRSP, and other streams will likely be at risk of crossing this threshold. Fortunately, there are strategies that can help you minimize paying back the Canada Revenue Agency.

Retirees: How to tackle the OAS clawback

The OAS clawback can be frustrating for retirees, because it can act as an additional 15% tax. However, Human Resource Development Canada has said that only about 5% of seniors receive reduced OAS pensions and only 2% lose the entire amount. Still, the question remains, how can we avoid the clawback?

Income splitting is one of the first strategies that should come to mind for married or common-law retirees. The introduction of pension splitting in 2007 really opened options for this cohort. Pension splitting lets spouses give up to 50% of their pension income to their spouse for tax-splitting purposes. This strategy can put you under the threshold for the OAS clawback.

Canadians can also look to spend their RRSPs before they turn 65. The benefits of the tax deferral wane in the later years of this Canada Revenue Agency-administered account. This is an unconventional route that not all investors will be comfortable pursuing.

You can also opt to defer the OAS. This new rule allows seniors to elect to defer the OAS to as late as age 70. Canadians planning to work past the age of 65 may find this option particularly useful.

Canada Revenue Agency: Retirees should pursue this strategy in 2021

Instead of looking for ways to reduce your retirement income, I want to see how we can beef it up to close out this article. The Tax-Free Savings Account (TFSA) is open to retirees who want to pursue capital growth or extra income. Best of all, these gains do not have to go to the Canada Revenue Agency.

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is a dividend stock that is perfect for a retiree TFSA. This company provides transportation and midstream services for the energy industry in North America. Its shares have increased 20% month over month as of close on November 25. The stock is still down 24% so far this year.

In Q3 2020, Pembina saw net revenue increase to $849 million compared to $751 million in the prior year. Adjusted EBITDA climbed to $796 million over $736 million. Pembina stock possesses a price-to-earnings ratio of 21 and a price-to-book value of 1.3. That puts the stock in very solid value territory. Best of all, it offers a monthly distribution of $0.21 per share. That represents a tasty 7.3% yield. Retirees can gobble up gains and worry about the Canada Revenue Agency another day.

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