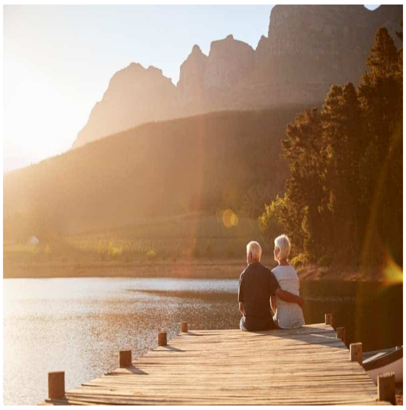

# Canada Revenue Agency: Retirees Can Avoid the 15% OAS Tax by Doing This

**Description**

The Old Age Security (OAS) pension is the government's lifetime present to Canadians, 65 or older. Since employment history is not an eligibility requirement, citizens or legal residents who have never worked at all will have a secure retirement benefit.



However, Canadian seniors with healthy retirement income will have to deal with the 15% recovery tax or the infamous clawback. The Canada Revenue Agency (CRA) sets a minimum and maximum income recovery threshold every year. If your net income reaches the limit, you can either receive a smaller or zero payment.

The CRA is unbending when it comes to the recovery tax. However, it doesn't mean there are no legitimate and proven ways to avoid the notorious tax penalty. You can also skirt the clawback with great success by doing the same strategies.

## Pension sharing

If the CRA doesn't budge, minimize the clawback's impact by splitting the pension with your spouse. Pension sharing between spouses is the most effective approach to lowering individual income for either spouse. A higher-income spouse can transfer up to 50% of the pension to a lower-income spouse.

## Defer OAS for 36% permanent increase

The OAS is available at age 65 and not earlier. However, you can defer the OAS until 70 if your income between the ages 65 and 70 pushes you closer to the clawback zone. Delaying the OAS payment for a maximum of five years from age 65 increases the pension by 36% permanently.

## Keep contributing to the RRSP

Retirees can keep contributing to the Registered Retirement Savings Plan (RRSP) until their 71st birthday. The CRA assigns an annual RRSP contribution limits or the maximum amount a taxpayer/user can deposit into an RRSP yearly. For 2020, the deduction limit is $27,230.

RRSP contributions are tax deductions. Your contribution reduces the income tax amount you'll pay. As long as the funds are in your RRSP, investment earnings are tax sheltered. You will only include them as income tax when you withdraw. Just don't go beyond the contribution to limit, or else you'll incur a penalty.

## RRSP mainstay

A blue-chip asset that's ideal for your RRSP is **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), or Scotiabank. The bank stock pays a lucrative 5.55% dividend and maintains a conservative payout ratio. Assuming you own $27.230 worth of shares in an RRSP, the $1,511.27 dividend earnings are tax-sheltered until you withdraw the funds.

The results of the recent survey by Scotiabank give an insight into how Canadians are responding to the COVID-19 pandemic. Most are becoming better savers while keeping expenses in check. About 79% of the respondents are spending cautiously, while 53% prioritize saving to have an emergency fund for any eventuality.



Also, nearly 38% are using savings to add to their investments. Scotiabank is a buy-and-hold stock for long-term investors. Purchase the bank stock today and never sell again. Since the income stream is enduring, it's like receiving an OAS. This $79.44 billion bank has been paying dividends since 1832, or 188 years.

## OAS clawback's rationale

The OAS is for retirees who need it the most. Hence, the more income you make, the less pension you receive. But it's good that seniors with high income can lessen the impact of the clawback.

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