Canada Revenue Agency: How Retired Couples Can Earn an Extra $1,250 Per Month and Protect Against the OAS Clawback

### Description

The Canada Revenue Agency, or CRA, taxes your pensions such as the Old Age Security (OAS). So, Canadian retirees who receive the OAS will have to look at this pension recovery tax that can be avoided.



## When does the Canada Revenue Agency tax your OAS?

The Canada Revenue Agency levies a clawback on your OAS if your net world income is over the minimum threshold limit of $79,054 for 2020. If your income is over the maximum threshold limit of $128,149, your entire OAS payout will be clawed back.

The Canada Revenue Agency will tax each dollar earned above the minimum threshold limit at a recovery rate of 15%. So, if you earn $90,000 in 2020, the OAS clawback will be implemented on the $10,946 ($90,000-$79,054), which means the total tax you will have to pay is $1,641.9 (15% of $10,946).

While it's good to have the problem of clawbacks, as it suggests you are earning significant income during retirement, you would like to minimize your tax liability.

## Leverage your TFSA and avoid OAS clawbacks

The CRA taxes your earnings when you work as well as pension plans, including the OAS and Canada Pension Plan, in retirement. It also levies a tax on RRSP withdrawals. However, there is one registered account where withdrawals are not subject to CRA taxes, which is the TFSA (Tax-Free Savings Account).

The TFSA was launched in 2009, and the cumulative contribution limit at the start of 2021 stands at $75,500. For retired Canadian couples, this amount doubles to $151,000.

Retirees would like to have a steady source of income, and they should invest in blue-chip dividend stocks to achieve this goal. As interest rates are near record lows, it might be difficult to outpace inflation by investing in bonds.

Dividend-paying companies are generally established entities that generate predictable cash flows, allowing them to increase dividend payouts over time. Investors can also benefit from long-term capital gains, allowing you to accumulate substantial wealth.

We'll take a look at some of the largest companies on the TSX that have attractive dividend yields.

**Royal Bank of Canada**: 4.1%

**Enbridge**: 7.5%

**Bank of Nova Scotia**: 5.4%

**BCE**: 5.7%

**TransAlta Renewables**: 5.4%

**TC Energy**: 5.4%

**Telus**: 4.8%

**Northwest Healthcare**: 6.3%



**Bank of Montreal**: 4.4%

**Algonquin Power & Utilities**: 4%

**Emera**: 4.2%

**Canadian Natural Resources**: 5.3%

## The Foolish takeaway

If you equally distribute your cumulative TFSA contribution room of $151,000 in each of these stocks, you can generate over $7,800 in annual dividend payments. This means retirees can earn over $650 in monthly dividend payments.

If these companies generate annual returns of 5% via capital gains, your portfolio value will rise by $7,500 each year. This means you can generate over $15,000 per year in dividends and capital gains by investing in top-quality TSX stocks.

The above companies are just a few Canadian companies that have consistently increased dividends over time. You can use this article as a starting point for your research and identify similar companies with strong balance sheets, large economic moats, and a steady stream of recurring income.

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