CRA: Protect Your OAS Payments From This 15% Clawback

Description

Being a Canadian citizen can be fantastic for senior citizens who could look at substantial retirement income through pensions. The Canadian government has designed pension plans to partially cover the retirement income for Canadian retirees. The Old Age Security (OAS) program is one such plan that can help them earn a third of their retirement income.

However, seniors collecting OAS should keep their revenue in check. There is a chance that the Canada Revenue Agency (CRA) could reduce their retirement income by 15% if their income is too high. The OAS clawback is also called the OAS pension recovery tax. Here is what you should know about the clawback.

OAS clawback rules

The CRA's OAS clawback is a tax on OAS payments that kicks in when the person's net income exceeds a threshold. The OAS clawback threshold for 2020 is $79,054. Once your net income crosses this level, the government can tax 15% for every additional dollar of your income.

The pension recovery tax increases until the full OAS for the year is accounted for, and it can be recovered through a reduction in OAS payments in the following year. The CRA taxes 15% for every dollar until it recovers the full OAS payment for the year. According to the CRA chart, the maximum threshold for the clawback is $126,058 for the 2020 income year.

You can calculate your OAS clawback amount by calculating how much your income is above the threshold, and then take out 15% of it. For instance, if your net income is $126,054, you would have to repay $50,000 x 0.15 = $7,500 to the CRA in OAS clawback.

What counts as net income?

The CRA considers most retirement income sources when calculating your net income. It can include any pension plans like the OAS, the Canada Pension Plan, Registered Retirement Savings Plan withdrawals, and Registered Retirement Income Fund payments. Suppose you have an income property, investments held in taxable accounts, or a part-time job. All that income also accounts for your net income.

Use your TFSA account

The Tax-Free Savings Account (TFSA) is an excellent tool to help you earn income from your investments without adding to the net income calculation. The cumulative TFSA contribution in 2020 is $69,500, and it will increase to $75,500 with the 2021 TFSA update. You and your spouse can have a total of $151,000 TFSA contribution room next year.

The contribution room can allow you to earn significant income through dividends if you use it to store a portfolio of reliable dividend stocks. **Fortis** (TSX:FTS)(NYSE:FTS) can be an excellent income-generating asset to consider buying for this purpose. Fortis is a reliable dividend stock that can provide you with consistently increasing dividend payouts.

Additionally, you can reinvest its dividends to unlock the power of compounding to increase your TFSA account balance until you need to use the money. Any withdrawals you make from your TFSA do not contribute to the net income that the CRA considers for its OAS clawback.

Fortis is an ideal stock to consider as a part of a TFSA dividend income portfolio for several reasons. The Canadian Dividend Aristocrat has been increasing its payouts to shareholders for almost 50 years. Fortis can manage to fund its increasing dividends due to consistent cash flows that are uninterrupted by economic crises like COVID-19 or the recession of 2008.

Many companies slashed their dividends, and several stocks lost the Canadian Dividend Aristocrat status amid the pandemic. However, Fortis has enough cash flows to keep increasing its payouts and keep its dividend-growth streak going.

Foolish takeaway

Using a portfolio of dividend-paying stocks can help you generate significant passive income that the CRA cannot count as part of your net income. Additionally, the income is tax-free due to your TFSA's tax-advantaged status. Fortis could be an excellent stock to begin building such a portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/09/13
Date Created
2020/12/18
Author
adamothman