Retirees: Prevent the CRA From Taxing Your CPP and OAS!

Description

CPP and OAS are two best friends of every Canadian retiree (at least those who qualify). These payments stay with retirees till their very last days, even when their own savings are depleted. This is one of the reasons why it's recommended that you should try to maximize your CPP and OAS pension (typically by delaying till you are 70). But these fantastic friends also have a dark side: taxes.

Both CPP and OAS are part of your taxable income. But this isn't the only way you pay part of your pension back to the CRA. If your taxable income grows beyond a threshold, you are also subjected to the OAS clawbacks.

And since your pension amount is fixed, there isn't much you can do to avoid paying taxes on that part of your income. However, by tweaking the other elements of your retirement income, you can control your taxable income and, consequently, how much tax you pay to the CRA. One of the simplest ways of doing it is by harnessing the power of the TFSA.

TFSA income

TFSA is your tax-free income. The CRA can't claim a dollar in taxes for what comes out of your TFSA. Let's say you earn a certain amount ($70,000) in any given retirement year, with a significant portion coming from the CPP and the OAS. If there is an income threshold (say $70,100) after which you might need to repay part (or all) of your benefit payments, you can avoid it by leaning on your TFSA income.

For example, you need to pay 15% of any income you earn over the threshold. So, if you earn $71,000 in one income year, you will need to pay $135 in taxes (15% of $900, which is over the threshold). But if that additional $1,000 came from TFSA, your *taxable* income will remain $70,000, and you won't have to repay part of your pension income to the CRA.

The right asset

With the right asset, a lot more than $1,000 can come out of your TFSA in any given year. Say you have a fully stocked TFSA ($69,500), and you invest $50,000 from it into **SmartCentres REIT** (TSX:SRU.UN), a six-year-old Aristocrat that hasn't slashed its dividends since 2005 and is currently offering a juicy 7.8% yield; you will earn about $3,900 a year in dividends.

SmartCentres has a market capitalization of about $4 billion. It's one of the largest owners and operators of unenclosed shopping centres in the country, and 115 out of its 166 locations share a common and dependable tenant: **Walmart**. Its real estate assets are worth over $10 billion.

Foolish takeaway

As a retiree, your portfolio management would be radically different from others. Instead of leveraging long-term growth, you may want to consider dividend stocks that can offer you a steady cash-based income. Asset allocation is another crucial point to consider since it plays into your taxable income. If a hefty portion of your assets is allocated in the TFSA, you might be able to control your tax obligation up to an extent.

CATEGORY

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TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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