3 Crafty Ways to Avoid the 15% OAS Clawback

Description

There's no indication that the Canada Revenue Agency (CRA) will extend the tax-filing and tax-payment deadlines for the income year 2020. Instead, the tax agency's website advises Canadians to plan ahead for the April 30, 2021, deadline.

To avoid delays and reduce potential exposure to COVID-19, taxpayers can sign up for a direct deposit and file tax returns online as early as February 22, 2021. The coming tax season is another bout with the Old Age Security (OAS) clawback for retirees.

Nearly all retirees wish their retirement income or pension benefits won't reduce due to the recovery tax. If it will materially affect your benefits and you hate it, there are three crafty ways to avoid the 15% OAS clawback.

1. Boost your OAS by 36%

One option to avoid or lessen the clawback's impact is to consider deferring your OAS until age 70. This strategy works best for ages 65 to 70 when your income is high. The delay option will yield two positive effects.

- Your OAS benefit will increase by 0.6% for every month of delay after age 65. The overall increase after five years is 36% more.
- The second advantage is that it will increase the ceiling you can earn before not receiving any OAS. Thus, you make more than the maximum while still receiving some OAS. It will take more income to claw it back due to higher OAS benefits.

2. Increase your CPP too

You might as well start CPP payments at 70 if you're delaying your OAS. The financial incentive if you do is a 42% permanent increase in pension payments. Likewise, you could withdraw 42% more if you were to claim your CPP at 65. Further, this option should reduce your income between age 65 and 70.

3. Optimize your TFSA

The third proven strategy to be rid of the OAS clawback is to get the most from your TFSA. Maximize your contribution limits and hold income-producing assets in your account. All interest, gains, or dividends from investments are non-taxable income. Your income is beyond reach by the CRA.

Investor-friendly income stock

You gain the best of both worlds if you use your TFSA to hilt. Besides avoiding the 15% OAS clawback, you'll boost your OAS and CPP pensions with an additional cash flow stream. Most TFSA users pick **Bank of Montreal** (TSX:BMO)(NYSE:BMO) as the third income source.

Canada's fourth-largest bank is an investor-friendly income stock. It's the first Canadian company ever to pay dividends. If you'll invest today, the bank stock trades at $99.86 per share and pays a 4.25% dividend. Note that its dividend track record is approaching two centuries (191 years).

Furthermore, BMO increased its yield annually by 5.39% over the last five years. Since BMO is a Dividend Aristocrat, make it the core holding in your TFSA. Your income could be for eternity.

Currently, BMO stands tall with its $64.56 billion market capitalization. It once more weathered an economic meltdown as it did in the past. OAS and CPP pensioners would need more secure profits to live comfortably in retirement. BMO is a no-brainer choice in your TFSA.

Don't lose sleep over the OAS clawback

Canadian pensioners need not lose sleep over the 15% OAS clawback. Try the three crafty ways and you won't feel the sting as much every tax season.

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