Canada Revenue Agency: 3 Ways to Prevent the 15% OAS Clawback

Description

Canadian retirees are allergic to tax bites, especially those that will significantly reduce their retirement income. The Old Age Security (OAS) clawback is the most notorious because the pension amount reduces if your income exceeds the Canada Revenue Agency's (CRA) minimum income recovery threshold.

A retiree will get zero benefits if income reaches the maximum income recovery threshold. For the recovery tax period of July 2020 to June 2021, the minimum and maximum limits are $79,054 and $128,149. If your income in 2020 were $90,000, you would have to repay $1,641.90 or 15% of the excess of $10,946.

Most retirees would instead prevent their income from triggering the OAS clawback. Fortunately, there are ways to deal with the recovery tax to minimize the impact on the pension.

Defer your OAS benefit

A proven strategy is to defer your OAS benefit until age 70. You hit two birds with one stone as the benefit will increase by 36% permanently and reduce your net income. From January to March 2021, the maximum monthly OAS payment is $615.37.

If you delay the payments by five more years, the amount will increase to $836.90. The CRA adjusts the OAS benefit every quarter in January, April, July, and October depending on the Consumer Price Index.

Produce non-taxable income

As much as possible, your income should be out of the clawback's reach. Since income from the Tax-Free Savings Account (TFSA) is non-taxable, use your TFSA to the max by contributing every year. If you still have a room available, transfer your savings or non-registered investments to your TFSA.

Make sure you don’t pay taxes on your TFSA. Monitor your available contribution room and don’t contribute beyond the limit. Otherwise, the CRA will penalize you (1% of the excess contribution per month), and you nullify the tax-free advantage.

Early RRSP withdrawal

One nifty way for Canadian retirees to avoid the OAS clawback is to withdraw funds from the Registered Retirement Savings Plan (RRSP). This strategy works best during periods when your income before retirement is in the low income tax bracket. You maximize your OAS benefits when your RRSP depletes later on.

New breed of buy-and-hold income stocks

Green stocks are the new breed of buy-and-hold income stocks. Leading the way is **TransAlta Renewables** (TSX:RNW), with its enticing 4.27% dividend yield. This $5.71 billion utility company is the largest generator of wind power in Canada. Its wind portfolio is also the largest in the continent of North American.

As of January 18, 2021, the share price is $21.51 or 41% higher than it was a year ago. Assuming your available TFSA contribution room is $20,000 ($6,000 new limit plus $14,000 carryover or unused room), the potential tax-free income is $854.

TransAlta’s primary focus is to build a pipeline of renewables, on-site and co-generation projects. The target locations are in the home country, Australia, and the U.S. The dividend payouts should be safe as the company operates fully contracted renewable power generation facilities consisting of wind, gas, hydro, and solar plus one natural gas pipeline. About 50% of cash flows come from wind assets.

Preserve your benefits

The OAS clawback is here to stay, and Canadian retirees will have to face it every tax season. However, don’t despair because you have proven ways to lessen its impact and preserve your benefits.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:RNW (TransAlta Renewables)

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
2025/08/24
Date Created
2021/01/22
Author
cliew