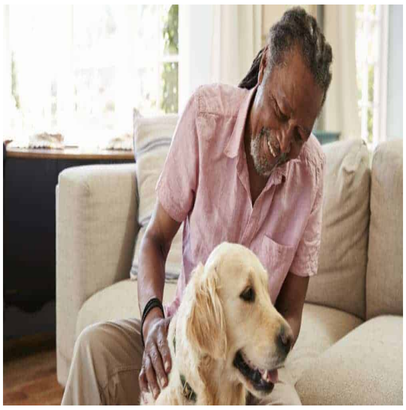

Canada Revenue Agency: 3 Cunning Ways to Avoid the 15% OAS Clawback

Description

As we move into February, the time for filing your taxes for the income year 2020 is coming closer. Canadian retirees who have been collecting their pension income through programs like Old Age Security (OAS) will have to contend with the Canada Revenue Agency (CRA). The government agency is keeping tabs on how much every retiree earns.

Nearly all retirees wish that their retirement income will not reduce due to the OAS recovery tax, or the 15% OAS clawback. If you want to ensure that you reduce or completely mitigate the OAS clawback, I have three cunning ways you can avoid the recovery tax.

1. Boost your OAS

One way to reduce the clawback's impact on your retirement income is to defer your OAS entirely until you turn 70. The strategy can help you keep more of your retirement income in two ways. The first way is that the OAS benefit increases 0.6% for every month you defer the payment after turning 65. By the time you turn 70, you can start collecting 36% more OAS than you could at 65.

The second way it helps is that it increases the ceiling you can earn before not receiving any OAS. It means that you can make more than the maximum while still receiving some OAS. It will take a lot more income to claw it back due to higher OAS payments.

2. Defer your CPP

Deferring your Canada Pension Plan (CPP) payments until you turn 70 can provide you with 42% higher pension payments through the program. Delaying collecting your CPP until you turn 70 will further reduce your income right now. You can continue raising the ceiling and get a 42% boost in your retirement pension when you start collecting at 70.

3. Generate tax-free passive income

Using your Tax-Free Savings Account (TFSA) to create a dividend-income portfolio can be one of the best ways to generate more retirement income without adding to your taxable income. A portfolio of reliable dividend stocks like **Fortis** (TSX:FTS)(NYSE:FTS) can help you earn tax-free passive income in your TFSA.

The CRA does not consider any earnings from your TFSA when it is calculating your net retirement income to determine whether your income meets the minimum OAS clawback threshold. Fortis can be an excellent stock to begin building such a portfolio due to its long-term reliability and increasing returns.

Fortis is a Canadian utility provider that has customers across Canada, the U.S., and the Caribbean. Fortis provides its customers with an essential service through long-term and highly regulated assets. It means that the company's revenues are virtually guaranteed and predictable. The company can use its predictable revenue to comfortably fund its expansion plans and finance its growing dividends.

Fortis is also a Canadian Dividend Aristocrat that has been increasing its dividend payouts for almost 50 years. Buying and holding the stock in your TFSA means you can earn growing passive income that CRA cannot tax through the years that you can use to supplement your retirement income.

Foolish takeaway

Deferring your OAS and CPP while creating a dividend income portfolio in your TFSA can help you avoid the OAS clawback without compromising on your retirement income. Fortis can be an excellent stock to begin building a portfolio of reliable dividend stocks in your TFSA.

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