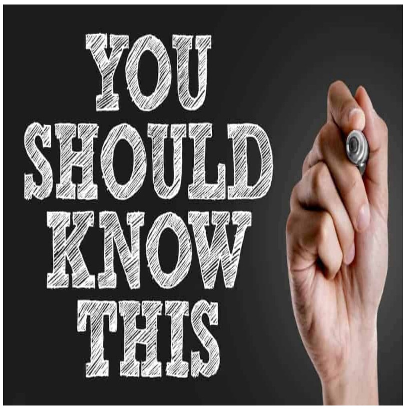

3 Simple Ways to Avoid the 15% OAS Clawback in 2021

Description

Another tax season is at hand, and retirees are annoyed and fearful of triggering the15% Old Age Security (OAS) clawback. The Canada Revenue Agency's (CRA) recovery tax is a thorn to Canadian retirees because it reduces retirement income or benefits; people try not to exceed the minimum income threshold and not feel the tax bite.

The figure to watch for the recovery tax period July 2020 to June 2021 is $79,054, or the minimum income recovery threshold. Your income should not exceed this amount, or else you enter the clawback zone. If your income in 2020 exceeds the threshold, the corresponding tax payable is 15% of the excess amount.

For retirees, incurring a 15% tax on top of current rates for each dollar of income over the threshold is material and perhaps the worst thing. However, there are three simple ways to avoid or at least limit the clawback's impact. The efforts are useful and worthwhile.

1. Split your pension with your spouse

Pension splitting between spouses is legitimate and acceptable to the CRA. You can transfer up to 50% of your CPP pension, Registered Retirement Income Funds (RRIF), and annuity payments to your spouse. This strategy of sharing a pension with a spouse earning a lower income will reduce the couple's overall income.

2. Start your OAS payments at 70

Canadians turning 65 qualifies for the OAS benefit regardless of employment history. However, you have the option to delay payments until age 70. This approach achieves two objectives – increase pension amount by 36% and reduce net income. A proven strategy is to defer your OAS benefit until age 70. Currently, the maximum OAS monthly payment (January to March 2021) is $615.37.

3. Move funds to your TFSA

As much as possible, retirees should have more non-taxable income to be beyond the OAS clawback's reach. Moving funds or non-registered investments to the Tax-Free Savings Account (TFSA) or maximizing the limits will generate tax-free income.

Ideal TFSA investment

If you're maximizing your TFSA in 2021, consider investing your contributions in **SmartCentres** (TSX:SRU.UN). This $4.26 billion real estate investment trust (REIT) should fit nicely into a TFSA dividend portfolio. The REIT pays an ultra-high 7.38% dividend. Your $6,000 will generate $442.80 in non-taxable income.

SmartCentres is one of the premier REITs in Canada, although the retail sector suffered tremendously due to government-imposed lockdowns. Fortunately, grocery and pharmacy stores comprise the tenant base. **Walmart** is among the top six tenants that contribute 40% of annual rentals.

Walmart has multiple renewable options with SmartCentres of up to 80 years. The current average lease term with the iconic retailer is 6.1 years. For the rest of the lessees, the average is 4.5 years. Other prominent tenants include **Canadian Tire Corporation** and **Loblaw**.

Generally, SmartCentres' portfolio is known for its stable retail income, long-term leases and high-quality tenant base. This REIT is an ally of retirees wanting to keep net income far from the OAS clawback zone.

Clawback timing

From July to December 2021, the CRA will clawback OAS payments based on income from the 2020 tax return. However, when you file your 2021 tax return, the tax agency will recalculate the OAS clawback based on your 2021 taxable income. Hence, it's possible to recover some of the tax.

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