CRA to Retirees: 5 Ways to Avoid the 15% OAS Clawback!

Description

Retirees in Canada receive a significant amount of retirement income through the Old Age Security (OAS). The maximum monthly payment amount is $615.37 (January to March 2021), so a typical retiree could receive $7,384.44 annually in the course of the retirement years.

Since the Canada Revenue Agency (CRA) considers the benefit as taxable income, retirees have to contend with a recovery tax. The 15% OAS clawback impacts a retiree's income. It reduces the benefit amount, especially of retirees in higher income brackets. Hence, it's a yearly battle with the tax agency to avoid the dreaded clawback.

The following are five ways Canadian retirees can avoid or be free of the OAS clawback:

1. Delay OAS by five years

Receive more OAS benefits by delaying the payment until age 70. It's a 36% permanent boost to your annual take-home. Instead of $7,384.44, the potential maximum amount jumps to $10,042.84.

2. Contribute and maximize your TFSA yearly

Because the Tax-Free Savings Account (TFSAs) creates non-taxable income, your contributions can help offset the OAS clawback. It would be best to contribute and maximize your TFSA every year.

3. Split income with a spouse

If one partner makes much more or less than the other, couples can split the income between them. The OAS is an individual benefit, but the CRA allows this method, so each spouse will not reach the clawback zone and receive the full OAS benefit.

4. Withdraw RRSP before OAS payments

Seniors with Registered Retirement Savings Plans (RRSPs) can consider drawing down from their accounts before starting OAS payments. Remember that RRSP and Registered Retirement Income Fund (RRIF) withdrawals are taxable incomes too. You can trigger the OAS clawback if RRSP withdrawals go beyond the income threshold.

5. Sell capital assets prior to OAS

Suppose you intend to sell assets such as a home, rental properties, or stocks, time the sale before receiving your OAS. If the sale happens after OAS payments have started, your taxable income could increase and trigger the 15% clawback. Pre-retirees must take note of this situation and plan the sale of significant capital assets.

Non-taxable income provider

TFSA users can create substantial non-taxable income from high-yield income stocks like **Keyera** (TSX:KEY). The energy stock pays a fantastic 7.2% dividend. Your $6,000 TFSA contribution limit for 2021 will generate $432 in tax-free passive income. The amount is so much more to those with higher available contribution rooms.

Keyera is a $5.89 billion midstream oil and gas company that offers a full range of essential midstream services. Its energy infrastructure business is vital in the Western Canada Sedimentary basin and Edmonton/ Fort Saskatchewan energy hub, both vital producing areas in Canada. Despite the massive industry headwinds, Keyera's financial position remains strong.

Thus far, in 2021, current Keyera shareholders are winning by 20% year-to-date ($26.66 per share). Because oil and gas prices are steadily recovering from the slump, market analysts forecast a potential climb to $30 in the next 12 months. Regarding dividends, it has been growing since the energy stock's Initial Public Offering (IPO) in 2003.

Eliminate the threat

The OAS is indeed essential to Canadian retirees. However, it shouldn't be a threat every tax season if you can successfully reduce its impact through five legitimate and proven ways.

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Date
2025/08/14
Date Created
2021/03/22
Author
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