Canada Revenue Agency: How to Avoid the 15% OAS Clawback

Description

After all the hard work they put in through the years to earn and provide for their families, facing financial challenges during retirement is one of the worst worries a retiree can have. If their pensions are reduced due to taxes, it can make them feel worse.

The Old Age Security (OAS) is a Canadian pension plan that charges a recovery tax that works like withholding tax on salaries. Canadian retirees hate this OAS clawback that reduces their pension by 15%.

Many older Canadians tend to overlook the income threshold that triggers this clawback every tax season. It is better to know how the OAS clawback works whether you are currently a retiree or nearing retirement.

I will discuss three ways you can legally avoid having to pay back part of your OAS pension to the Canada Revenue Agency (CRA).

Split your pension income

The CRA allows spouses to split their pensions. If you have a higher income than your spouse, you can transfer up to 50% of the eligible pension income to your spouse to reduce your tax bill. For the 2020 income taxes, the minimum threshold that triggers the OAS clawback is $79.054.

If your income after splitting is lower than the threshold that triggers the clawback, you can even eliminate the OAS clawback.

Defer your OAS

Deferring your OAS start until you turn 70 is another excellent strategy you can use to avoid the 15% OAS clawback legally. For each month you defer collecting your OAS pension, the CRA increases your monthly income by 0.6%.

Once you stop working at 70, you can earn up to 42% more than you would if you started collecting OAS at 65. Additionally, your income will also decline and make you less likely to come to the clawback zone.

Generate non-taxable income

Using the Tax-Free Savings Account (TFSA) is one of the best ways to generate cash flow for a lifetime that the CRA can't even calculate as part of your taxable income for the OAS clawback. TFSA earnings and withdrawals are tax-exempt. You can cover your financial needs without incurring needless tax expenses by making good use of your TFSA.

Dividend Aristocrats like **Emera Inc.** (TSX:EMA) are ideal investments in a TFSA. It is an attractive asset to consider when you begin building a TFSA income portfolio due to its favorable business model. Emera generates income from a regulated asset portfolio, virtually guaranteeing predictable income.

The regulated utility company from Halifax, Canada, has an excellent dividend growth streak. Utilities are typically reliable income-generating assets to own because they provide essential services to all individuals and industries.

Emera's business structure includes the generation, transmission, and distribution of gas and electricity throughout North America. The company is also providing its customers with other utility services. Its management's growing investments in renewable energy also present excellent growth prospects for the company and investor returns.

Foolish takeaway

You should consider tax implications on your passive income streams while you plan your retirement. Intelligent investment moves, income splitting, and deferring your OAS can help you avoid having to pay back a chunk of your retirement income in taxes. Additionally, it can help you generate even more income during your golden years.

Emera Inc. could be an excellent asset to begin building a TFSA income portfolio that helps you avoid the OAS clawback.

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