Canadian Retirees: 1 Dividend Stock to Avoid the OAS Clawback

Description

Are you a retiree or near retiree who will soon begin collecting Old Age Security (OAS) pensions? As a retiree, having to pay taxes on your pensions is one of the last things you might want to do. If you earn enough income in retirement, there is also a chance the 15% OAS clawback might hit you hard.

Fortunately, there is a way to boost your income through investments without breaching the threshold for the OAS clawback.

Using your TFSA to avoid the OAS clawback

Using your Tax-Free Savings Account (TFSA) to store your investments is an excellent way to generate more income without triggering the OAS pension recovery tax.

After the 2021 update, Canadians have a cumulative contribution room as high as $75,500 in their TFSAs. This is a substantial space to build an income-generating portfolio that can supplement your pension income through the OAS and the Canada Pension Plan (CPP), and any other taxable income streams.

The OAS clawback is triggered when you have a net world income of $79,845 for the 2021 tax year. Once you hit this figure, the Canada Revenue Agency (CRA) will enact a 15% tax on each dollar you earn above the minimum threshold.

If you are a high-income-earning retiree, you could be paying a massive chunk of your income to the CRA through the OAS clawback. It makes sense to move investment funds from taxable accounts to a TFSA. It will help you continue generating passive income from your investment without counting it as part of your net world income.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is an energy sector infrastructure giant in North America. It boasts a vast network of oil pipelines, natural gas transmission services, gas storage and distribution, and renewable energy assets.

The demand for its oil pipeline services fell off a cliff last year, as fuel demand crashed. However, the situation is currently improving. The demand for its services should be back at normal volumes, as life worldwide returns to relative normalcy and airline travel resumes.

The company is working on $16 billion in secured capital projects. The company's new assets will contribute to boosting Enbridge's distributable cash flow by 5-7% per year in the medium term. Investors can also expect it to increase dividends in the same range.

The stock is trading for $47.84 per share at writing, and it already pays its investors at a generous 6.98% dividend yield.

Foolish takeaway

The TFSA is an excellent and flexible investment tool suitable for every Canadian, depending on their investment goals. Retirees can use this tax-sheltered account to focus their investments and generate tax-free passive income. The TFSA income will not bump them up to a higher tax bracket or put their OAS payments at risk of the 15% clawback.

Enbridge is a top Canadian dividend stock that you can consider setting as the foundation of your fund. You can generate substantial passive income through attractive payouts that should continue to grow in the coming years.

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