Canadian Retirees: How to Avoid the 15% CRA OAS Clawback

Description

Every Canadian citizen begins receiving the Old Age Security (OAS) pension from the federal government when they turn 65 years old. The government's financial support has become an integral part of retirement income for older Canadian adults in their lives after spending years generating active income.

The OAS is designed to partially replace your pre-retirement active income to enjoy your sunset years as a Canadian citizen. However, the Canada Revenue Agency (CRA) can still recover the OAS amount partially or entirely through the dreaded 15% OAS clawback.

Your annual retirement income must not exceed a minimum threshold or reach the maximum threshold so that you do not trigger the recovery tax. For the income year 2021, the minimum OAS recovery tax threshold stands at $79,845, and the maximum threshold amount is $129,260.

If your annual income is over $79,845, you will trigger the 15% OAS clawback by exceeding the minimum threshold. If your income reaches the maximum threshold, you will not get any OAS benefits from the government.

By the time the next tax season arrives, there is a way you can avoid triggering the OAS clawback *and* generate tax-free income while you are at it. I will discuss how that is possible.

Time-tested solution

Any income you derive from employment, self-employment, rental and other investments, property sale, pensions, and most other income streams is taxable under Canada's tax laws. Unfortunately, it means that older Canadian adults with higher net incomes are at the risk of triggering the OAS clawback. If you think that your overall income is too high, you could consider deferring your OAS payments until you turn 70.

Voluntarily delaying your OAS can result in a 36% increase in the monthly benefit amount you receive from the government. If you cannot wait to defer your income until you turn 70, you could focus on creating a tax-free income stream to generate non-taxable income that the CRA will not touch.

Enter the Tax-Free Savings Account (TFSA). This account type has become a popular investment tool for a wide range of short- and long-term financial goals. Any income that you generate in your TFSA through interests, capital gains, or dividends does not contribute to the CRA's calculation of your net income. Even the withdrawals you make from your TFSA are not subject to tax because your TFSA holds after-tax dollars.

You can utilize the contribution room in this tax-sheltered account to generate significant tax-free income, provided that you can create a portfolio of the right income-generating assets.

Generate tax-free income

Investing your capital in income-generating assets is an ideal way to generate substantial passive income without the risk of triggering the OAS clawback. You can create a portfolio of reliable dividend stocks that can add cash to your account. By reinvesting the dividend income, you can unlock the power of compounding to accelerate wealth growth in your TFSA.

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is an ideal stock to consider if you are looking for a strong foundation for your dividend income portfolio. The energy sector stock is enjoying an improving performance due to favorable industry trends providing tailwinds for the oil and gas sector. The energy infrastructure company pays its shareholders their dividends each month, allowing you to churn out passive income that you can reinvest to unlock even more income.

While industry headwinds can become problematic for most energy sector companies, Pembina's reliance on long-term, extendible, and fee-based contracts shields the energy infrastructure company from volatility.

Foolish takeaway

As a retiree who has worked hard all their life to earn income, save money, and pay taxes, nothing might seem more annoying than to give back your hard-earned retirement income.

Fortunately, you can use a well-planned TFSA investing strategy to avoid triggering the clawback and generate additional passive income that the CRA cannot tax, provided you make the right investments.

Pembina Pipeline stock could be an excellent addition to your TFSA portfolio for this purpose to generate consistent and reliable income, regardless of bear market conditions.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)

2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26
Date Created
2021/07/10
Author
adamothman