



3 Stocks That Will Help You Avoid the 15% OAS Clawback

Description

Canadians have a love-hate relationship with the Canada Revenue Agency (CRA). While tax breaks, tax credits, and tax deductions are most welcome, [tax burdens aren't](#). The 15% Old Age Security (OAS) clawback for retirees is the most dreadful every tax season. Many seniors look for ways to reduce the recovery tax or minimize the impact on OAS benefits.

One of the proven and effective schemes is to use the Tax-Free Savings Account (TFSA). Remember that interest, gains, and income within a TFSA don't count as taxable income. The CRA will only intervene and levy taxes when a user over-contributes, derives dividends from foreign assets, or carries on a business (buying and selling stocks).

Savvy seniors buy high-yield [dividend stocks](#) to hold in their TFSAs. The dividend income can offset the OAS clawback or avoid it altogether. Two royalty companies and one provider of senior living residences are ideal investments in a TFSA.

Over the hump

Diversified Royalty ([TSX:DIV](#)) trades at only \$2.81 per share but pays an ultra-high 7.47% dividend. Assuming you own \$6,000 worth of shares (2021 TFSA annual contribution limit) in your tax-advantaged account, the tax-exempt dividend income is \$448.20.

The \$341.56 million multi-royalty company owns the trademarks to six ongoing business concerns. Diversified receive royalties from the sales of Air Miles, Mr. Mikes, Mr. Lube, Nurse Next Door, Oxford Learning Center, and Sutton. Canadians are familiar with these royalty partners.

It appears the companies in the royalty pool are over the hump. Diversified's losses in the first half of 2020 reached \$8.9 million. In the six months ended June 30, 2021, management reported \$5.2 million in net income.

Positive momentum

Another great source of [recurring income streams](#) is **Pizza Pizza Royalty (TSX:PZA)**. At \$11.47 per share, the dividend offer is a generous 6.28% dividend. Pizza lovers in Canada are familiar with the Pizza Pizza and Pizza 73 brands. This \$369.07 royalty company owns the trademarks to both.

The COVID-induced shutdowns continue to impact operations and profitability. But despite the challenging economic backdrop, management announced a 9% increase in dividends in Q2 2021. Pizza Pizza CEO Paul Goddard welcomes the positive momentum due to the lifting of restrictions. He expects business performance to improve in the back half of 2021 vastly.

The best part of owning this royalty stock in a TFSA is that the payouts are monthly, not quarterly. Pizza Pizza's practice has been to distribute all available cash to maximize shareholder returns.

Continuing recovery

Sienna Senior Living (TSX:SIA) is a top-notch investment for retirees. At \$14.98 per share, investors can partake of the lucrative 6.22% dividend. The \$1 billion company is well known in the medical care facilities industry. Its retirement and long-term care (LTC) segments offer a range of seniors' living options.

Like Diversified and Pizza Pizza, Sienna is slowly recovering from the pandemic's fallout. Its strong foundation and fundamentals are why the business endured the health crisis. While revenue in the first half of 2021 versus the same period in 2020 dropped 1.4%, the company reported profits (\$11.46 million) instead of a loss (\$9.27 million).

Retirees are not helpless

Canadian retirees aren't helpless against the 15% OAS clawback. They can be free of a nuisance every tax season by maximizing their TFSAs to create tax-free income. Holding high-yield stocks, in particular, can do the trick.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:PZA (Pizza Pizza Royalty Corp.)
3. TSX:SIA (Sienna Senior Living Inc.)

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