Retired Couples: Earn $654.33 in Monthly, Tax-Free Income and Protect Your OAS

Description

Retirees who receive Old Age Security (OAS) need to keep an eye on their income each year to avoid getting hit with the OAS pension recovery tax, also referred to as the OAS clawback.

OAS pension recovery tax overview

The CRA implements a 15% OAS clawback on every dollar of net world income earned above a minimum threshold. In the 2021 income year that number is $79,845 for every person who receives the OAS pension. Now, you might think that $80,000 per year is good money in retirement. That's certainly the case, but it doesn't take long to hit that number if a person receives a decent company pension, CPP, and OAS pensions, along with RRIF payments, and any other taxable income that might come from investments in taxable accounts, rental properties, or a hobby job.

Once you pay federal and provincial income taxes on $80,000 in income, the amount left over might actually leave a person on a tight budget at the end of each month. Retirees increasingly have mortgages to pay, and day-to-day life keeps getting more expensive.

As such, it makes sense to shift investments held in taxable accounts to a TFSA, where the interest, dividends, and capital gains can go right into your pocket without concern that the CRA will take a share or include the earnings when determining the OAS pension recovery tax.

TFSA advantage

The TFSA contribution room increased by $6,000 in 2021. The maximum available per person is currently $75,500. This means a retired couple has $151,000 in combined TFSA contribution space to hold income-generating investments that won't put their OAS at risk of the clawback.

Best stocks to buy for a TFSA income fund

Industry leaders with long track records of dividend growth tend to be good picks for a TFSA focused on generating passive income.

Let's take a look at **TC Energy** (TSX:TRP)(NYSE:TRP) to see why it might be an interesting pick to get you started.

TC Energy

TC Energy is a leader in the North American energy infrastructure industry with 93,000 km of natural gas pipelines located in Canada, the United States, and Mexico. The company also has vast natural gas storage sites, power-generation facilities, and oil pipelines.

TC Energy's $21 billion capital program will drive revenue and cash flow growth in the next few years. As a result, investors should see steady annual dividend increases of 5-7%. The stock trades near $67 per share at the time of writing compared to $75 before the pandemic. Investors who buy now can pick up a 5.2% dividend yield.

Natural gas has a bright future in North America and around the world. The fuel emits less carbon dioxide when burned than oil or coal and is viewed as a reasonable option for countries that need reliable power generation while they transition to solar, wind, and hydroelectric facilities.

The bottom line on tax-free income

The TFSA offers retirees a chance to earn tax-free investment income that won't put OAS payments at risk of a clawback.

It is possible to put together a diversified portfolio of dividend stocks that provides an average yield of 5.2%. This would generate $7,852 per year in tax-free income on a combined $151,000 TFSA fund.

That's $654.33 per month!

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