



How Retirees Can Get an Extra \$407.50 in Monthly Tax-Free Passive Income and Avoid the OAS Clawback

Description

Retirees who receive Old Age Security (OAS) pensions are searching for ways to generate tax-free passive income that won't put them at risk of the OAS clawback.

TFSA advantage

The TFSA is useful for all Canadian investors, but retirees who receive OAS pensions get an added benefit by earning investment income inside the TFSA instead of in a taxable account.

All interest, dividends, and capital gains generated inside a TFSA and removed from the account are tax free. In addition, the CRA does not include the earnings when calculating net world income used to determine the [OAS pension recovery tax](#).

The income threshold to watch in 2022 is \$81,761. Every dollar of net world income earned above this amount triggers a 15 cent clawback on OAS payments in the July 2023 to June 2024 payment period. Retirees who are at or above that level stand to lose a significant part of their OAS pension.

It's true that \$82,000 is good retirement income, but it doesn't take long to hit that level if a person receives a decent company pension along with CPP, OAS, and [RRIF](#) payments. These are all taxable earnings, so the final amount that ends up in your pocket is a lot lower. Extra income can bump a person into a higher marginal tax bracket and result in a reduction in OAS payments.

Soaring inflation means more retirees are finding cash flow tight at the end of every month, so it makes sense to keep as much income as possible out of the hands of the tax authorities.

One popular strategy for generating TFSA income in this era of high inflation involves owning top dividend stocks that raise payouts on a regular basis and offer above-average yields.

BCE

BCE ([TSX:BCE](#))([NYSE:BCE](#)) has been a top pick among retirees for decades and the stock still deserves to be a core holding for generating reliable passive income. The company enjoys a wide competitive moat, has the power to raise prices as needed, provides essential services, and has the balance sheet strength to make the investments required to drive revenue and profit growth.

BCE expects free cash flow to grow by 2-10% in 2022. The dividend increased by at least 5% in each of the past 14 years and should continue to grow at a similar pace. The stock looks [undervalued](#) after the recent pullback and now offers a solid 5.8% dividend yield.

Enbridge

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) is another top dividend stock that puts significant cash in the pockets of its investors every year. The company is a giant in the North American energy infrastructure sector, providing essential transmission services for oil and natural gas producers. In fact, Enbridge moves 30% of the oil produced in Canada and the United States and 20% of the natural gas used by Americans every year.

The rebound in the energy sector is driving up domestic and international demand for fuel. This bodes well for Enbridge. Investors who buy the stock at the time of writing can get a 6.3% dividend yield.

The bottom line on earning tax-free retirement income

Retirees have up to \$81,500 in cumulative TFSA contribution space in 2022. It would be quite easy in the current market to build a diversified portfolio of top stocks like BCE and Enbridge to produce an average yield of 6%. This would generate \$4,890 per year on the \$81,500. That's \$407.50 per month in tax-free income that won't put OAS payments at risk of a clawback!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date

2025/07/07

Date Created

2022/07/09

Author

aswalker

default watermark

default watermark