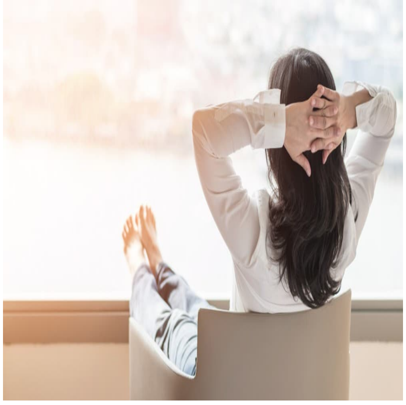

Canada Revenue Agency: 3 Ways to Lower Your CRA Taxes in 2020

Description

Two things are certain in life – death and taxes. While death cannot be avoided, we can certainly have our taxes lowered. Starting January 1, new tax changes came into effect that can reduce the tax burden for most working Canadians as well as retirees. Here's how you can benefit from the new tax regime and significantly lower your amount in 2020.

The basic amount

This year the CRA increased the basic personal amount (BPA) by an additional $1,160$ to $13,229 for those with a net income of less than or equal to $150,473. That BPA of $13,229 translates to around $1,102 that you can save each month on taxes.

The BPA is a non-refundable tax credit that is meant to help Canadians cover their basic needs by reducing what they owe in taxes. Partial reductions are also provided for those earning up to $214,368. This year's BPA addition is the first phase of annual incremental increases that will see the final amount increased to $15,000 by the year 2024.

RRSP contributions

The Registered Retirement Savings Plan (RRSP) is a tax-deferred account, meaning that your RRSP contributions are tax-deductible, and you only pay income tax when you withdraw funds from the account.

To further clarify with an example, consider a person with a salary of $60,000 who contributed $5,000 to their RRSP. If their income tax rate is 29.65%, they remain in the same tax bracket but get a tax refund equal to the tax rate on that amount. In this case, it would be $5,000 x .2965 = $1482.5.

The maximum you can contribute annually to your RRSP is 18% of the previous year's earned income, up to $27,230 for 2020. However, any unused RRSP contribution room in previous years is carried forward indefinitely, meaning the maximum amount could be higher for some Canadians.

Since you only pay taxes on withdrawals, an RRSP account can be useful for holding long-term compounding investments. If you are looking for a high-yield and dependable stock to add to your RRSP portfolio, **Power Financial** is a good option, offering a reliable dividend yield of 5.31% and good prospects for future growth.

Income earned through your TFSA

This year, Canadians were given $6,000 more in tax-free annual contribution room for their TFSA accounts. TFSA accounts are great for growing your passive earnings as you don't have to pay any taxes on the income earned in them.

The maximum you can hold in a TFSA as of 2020 is $69,500. If you have this amount invested in various stocks offering an average dividend yield of 5%, you can expect to earn a monthly amount of around $273, tax-free.

Telus is an example of a good growth stock to add to your TSFA account. In recent years, the company has had strong growth momentum and has been steadily raising its annual yields for the past 16 years. The current annual dividend payout is 4.38% but is set to increase further in keeping with the previous trend.

Summary

Any combination of the three methods above can help you save a substantial sum on the amount you pay in taxes. If you use a TFSA or RRSP to invest in stocks for the long term, you can stash away a considerable amount of your investment earnings.

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