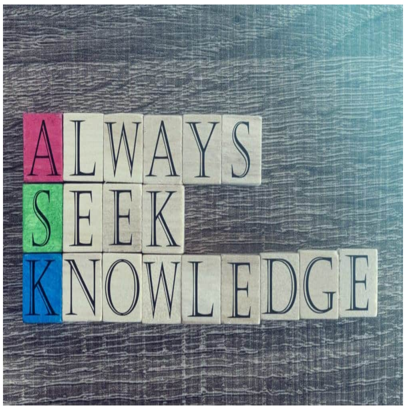

Canada Revenue Agency: Pay Fewer Taxes Due to This 2020 CRA Update

Description

The Canadian government announced in late 2019 that they plan to amend the *Income Tax Act*. Based on the proposed motion, Canada might increase the basic personal amount (BPA) to $15,000 by 2023. The amount is up $2,702 from the amount in 2019.

Are you wondering what the BPA is and what it means for you? According to the Canada Revenue Agency (CRA) website, the BPA is a non-refundable tax credit that each individual can claim.

The basic personal amount

The BPA serves to offer everybody with an income lower than the BPA to reduce federal taxes they owe to the CRA. It also provides a partial reduction of income taxes for individuals with total income higher than the BPA.

For 2020, the CRA increased the BPA to $13,229 for individuals with an income of $150,473. The amount will increase to $13,808 for the 2021 tax year. It will progress to $14,398 for 2022 and $15,000 by 2023. The CRA will index the amount for inflation after 2023.

The increased BPA amount will benefit many Canadians. Most Canadian citizens are struggling with a high debt-to-income ratio. A high risk of debt defaults can cause further problems in the event of a recession. The BPA helps Canadians cover their necessities, as there is no federal tax on a specific amount.

Canadians can save more or reduce their debts because of this change. Today I'm going to discuss **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock as an investment you can use to leverage the tax savings.

Dividend-paying stock

The Scotiabank is Canada's top bank in terms of international exposure. The bank reported solid quarterly results for the first fiscal 2020 quarter. The bank is down 5.35% from its February 14, 2020 peak due to the recent stock market pullback. It's trading for $70.73 per share at writing.

In the last 10 years, Scotiabank has created a significant presence in Latin America. It is one of the top 10 banks in Mexico, Chile, Peru, Colombia, and the Dominican Republic. Its increasing presence in Latin American banking markets reduces its reliance on domestic banking operations and the housing market.

Scotiabank's exposure to rapidly growing economies in South America is having a positive effect on the bank's performance. It reported a 5% increase in earnings per share year over year and also reported a solid return on equity with its profitability of 13.9%.

Scotiabank delivered returns of almost 120% on investment if dividends were reinvested. The bank's phenomenal compounded annual growth rate (CAGR) of 8% is substantially higher than returns from holding cash or bonds in the same period.

Foolish takeaway

Take advantage of the BPA update by the CRA and invest your savings in healthy dividend-paying stocks. Scotiabank could be a viable asset to consider to this end.

The short-term outlook for Scotiabank is not any better than the rest of the sector due to the coronavirus pandemic. Still, it shouldn't deter investors from adding the bank to their registered retirement savings plans (RRSPs) and their Tax-Free Savings Account (TFSA) contributions.

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