CRA Tax Changes: Will You Pay More in 2020?

Description

This year, the CRA is bringing in a number of changes to make life easier on taxpayers in the COVID-19 era. These include tax filing extensions, benefit increases, and the CERB.

These benefits to taxpayers are substantial. However, you may still end up paying more taxes this year than you expected to. As a result of new changes to the CPP system, your tax rate is likely to be higher this year than last year. The good news is, there are ways to combat the increase. I'll explore those in a minute.

First, though, let's take a look at the coming changes that could increase your tax rate in 2020.

CPP enhancement

CPP enhancement is a new CRA program designed to increase CPP payouts. To pay for the increased payouts, the program's premiums are increasing. From 2019 to 2024, employees will see premiums increase between 0.15% and .25% a year. For the self-employed, the increases between .3% and .5%.

For 2019, employees will see their CPP contributions increased by .15%, while the self-employed will see theirs increased by .3%. These are small increases percentage wise, but they could add up to a significant dollar amount. In 2020, you'll be filing taxes for the 2019 tax year, so expect to see the increase when you file before June 1.

How to combat the tax increase

Paying more come tax season is never fun. Fortunately, there are several ways to combat the higher tax rates coming. As I've written in past articles, there are several tax breaks you can take to reduce the amount you pay. In this article, I'll be focusing on one:

RRSP contributions

By making contributions to an RRSP, you lower your taxable income. In turn, this lowers the amount of tax you owe. The amount you can contribute to an RRSP is 18% of your income, up to a set limit. The highest amount you could have contributed in 2019 was $26,500 (assuming you had no accumulated space).

If you contributed $10,000 to an RRSP and had a marginal tax rate of 30%, you'd save $3,000 in taxes. That's significant savings as it is. But the potential savings don't end there. RRSPs also defer your taxes on dividends and capital gains. So if you had investments in your RRSP, you'd save even more.

Consider the case of an investor holding the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in an RRSP. Let's imagine that this investor had a $10,000 position, and a marginal tax rate of 30%.

XIU yields 3% at current prices, which would produce $3,000 in income. In an RRSP, the investor would pay no taxes on these dividends. Additionally, if they sold stock, they'd pay no capital gains tax either.

It's just the opposite in a non-registered account. In that case, the dividends would be grossed up by 38% with a 15% tax credit applied. The tax credit would save them $621, but they would still pay a significant tax on the grossed up dividends. If they sold stock (say at a $1,000 gain), they'd pay a 30% tax on half ($500) of the gain, which would result in a $150 tax.

The RRSP spares you both of these potential taxes. Of course, you do have to pay taxes on RRSP withdrawals when you retire, but at that point, you should be earning a lower income and have a lower marginal tax rate.

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