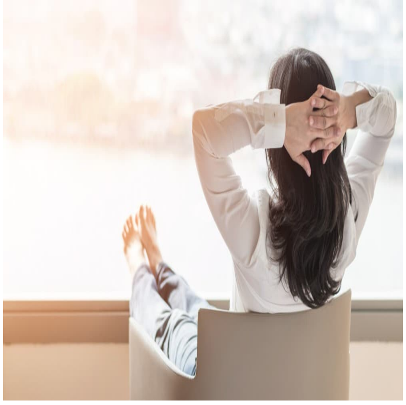

CRA Update: 3 Tax Breaks for 2020

Description

Everyone wants to pay less in taxes, but most don’t make the necessary moves to do so. That’s too bad, as it’s not difficult to qualify for several tax breaks that can save you thousands of dollars every year.

In 2020, there are three methods in particular that can greatly reduce your tax burden. One of them is accessible by all tax filers, regardless of age or income level.

This tax break is easy

The easiest tax break ever is to pay your tax bill as late as possible. Be careful with this, as you don’t want to miss the filing deadline. But if you have plenty of cash, don’t wire the money months in advance, as you’ll forego the time value of money.

As the saying goes, time is money — and compound interest is a perfect example. A $100 investment earning 10% per year will grow to $110 after 12 months, a $10 profit. But the next 12 months generates $11 in profit. Another 12 months results in a $13 profit. The more time your money is invested, the faster it grows.

This concept works in reverse as well. If you pay your taxes months before the deadline, you give up the opportunity for that money to grow in the interim. Paying early is like providing the government a free loan. Paying as late as possible is akin to a tax break.

This practice is most applicable in 2020, as the CRA extended the tax deadline from April 30 to June 1. In future years, make sure to keep your money growing as long as possible before relinquishing it to the CRA.

Don’t forget your RRSP

RRSPs constitute the most popular tax break in Canada, apart from TFSAs.

If you invest in an RRSP, your money is shielded from taxes until withdrawal. All capital gains and dividends are tax free. But this is only half of the equation.

Let’s say you invest $1,000 into your RRSP this year. This contribution is considered *pre-tax* money. That is, money you haven’t yet paid taxes on. And as long as you deposit the money into an RRSP, you’ll never have to pay that initial tax bill.

When it’s time to file your taxes, you can deduct the $1,000 from your taxable income. If you earn $50,000 this year and your tax rate is 25%, your tax bill will total $12,500. But if you contributed $1,000 to an RRSP, you get an immediate tax break. Your taxable income is reduced to $49,000.

At a 25% tax rate, your tax load is reduced to $12,250. That’s a free $250 direct to your wallet.

Always go long

The best tax break in history is to be a long-term investor. Most investment taxes derive from *realized* capital gains. If you buy a stock at $100, then sell it at $150, you’ve accrued a capital gain of $50. You need to pay taxes on that amount.

But realized capital gains only occur when the gain is realized. If you don’t sell, there’s no taxable event. You may have gains in your account, but these are deemed *unrealized* capital gains.

Being a long-term investor is like receiving a life-long tax break. You’re not buying and selling frequently, racking up new taxable events. Instead, you’re letting your money grow gradually, with very little diverted to the CRA.

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