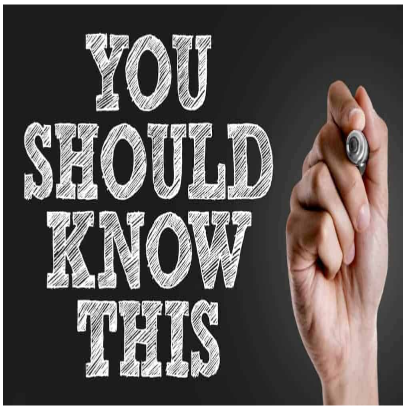

CRA Emergency Actions: 2 Ways to Lower Your Taxes!

Description

This year, the major emergency action the CRA took was to extend tax deadlines. This likely put an enormous strain on the department and the government as a whole, since it disrupted the yearly financial calendar, especially at a time when the government needed all of its assets/funds consolidated.

This delay, while it allowed people to get their finances in order, prepare, and pay their taxes, despite the disruption caused by the pandemic, also gave people two ways to lower their tax obligation.

Account for all deductions

One of the best ways to lower your tax bill is to report all possible deductions you qualify for. Based on your circumstances, there would be some deductions you do or do not qualify for. But one deduction that's open to almost everyone, and it's quite sizable, is RRSP contributions. For someone who lives in Ontario and earns $100,000, full RRSP contributions can result in a tax break of over $6,000.

There are other important deductions as well that may apply to some of the individuals, like childcare. If your child needs to be placed in daycare or under a babysitter's supervision if both parents have to work, you can deduct those expenses. For self-employed individuals, there are a lot of expenses that they can claim to lower the tax bill.

Capital gain and loss

While a capital loss is no fun, the one good thing that comes out of it is that it can be applied towards your capital gains tax obligations. Say you have realized a capital gain of $1,000 by selling some shares from Security A. Since half of that is taxable, your tax obligation is on the $500 amount. In the same year, if you incurred a loss of $2,000 by selling part of Security B, you have a net "taxable" loss of $1,000 (half).

Since your loss exceeds your profits for the year, not only will it nullify the tax obligation for your capital gains for the year, but you can carry it forward indefinitely or carry it back three years to offset the gains.

One good idea is to invest in a steady growing Dividend Aristocrat with a juicy yield, like **National Bank of Canada** (TSX:NA). It's was one of the fastest-growing banks (in terms of market valuation) in the past five years among the Big Six. Currently, it offers a yield of 4.5% and trades at a 17% discount.

This security offers both growth and continuously growing dividends since the bank is an aristocrat. Its payouts are well within a reasonable range, and its five-year CAGR is about 9.7%.

Foolish takeaway

Taxes are a necessary financial obligation that you can't get away from. But with some tips and legally allowed deductions, you can lighten your tax burden substantially. Also, by using your TFSA and RRSP efficiently, you can balance your current and future tax burden. The RRSP will help you with a lighter tax bill now, and TFSA withdrawals will keep you in the lower tax brackets when you are retired.

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adamothman