Canada Revenue Agency: 2 Tax Breaks That Should Make You Happy

Description

Income tax filing is a monotonous chore that taxpayers are burdened with every year. While filing and paying taxes are necessary, you need to take advantage of the various tax breaks that can lower your liability to the Canada Revenue Agency.

Here are two tax deductions that should not be missed if you are eligible.

CPP contributions

The Canada Pension Plan (CPP) is a pension program that aims to help retires lead a comfortable life. If you are a salaried employee or a self-employed individual, you need to contribute towards the CPP.

The CPP contribution rate for 2020 stands at 5.25% for employees and at 10.5% for self-employed Canadians for income up to $58,700. The maximum annual exemption towards the CPP is $3,500, which indicates individuals can contribute up to $2,898 towards the CPP.

For example, if you earn north of $58,700, you need to multiply your CPP contributions by 15% (in this case $2,898*15%), which amounts to a tax break of $434.7.

Basic personal amount

The basic personal amount (BPA) is a non-refundable tax credit that can be claimed by all individuals. The primary purpose of the BPA is to provide a full reduction from federal income tax to individuals with taxable income below the BPA.

The BPA in 2020 has been increased to $13,229 from $12,298 for individuals with a net income of below $150,473. The CRA aims to increase the BPA to $15,000 for the 2023 taxation year, and this will be indexed to inflation for subsequent years.

A registered account to generate tax-free returns

The above-mentioned tax breaks will help to reduce Canada Revenue Agency taxes. You can also generate tax-free income by investing in the Tax-Free Savings Account (TFSA). The TFSA is a registered account that is fast gaining popularity among Canadians. The TFSA contribution limit for 2020 is $6,000, and you can invest in stocks such as **Emera** (TSX:EMA) for long-term gains.

While contributions to the TFSA are not tax deductible, any withdrawals in the form of capital gains or dividends are exempt from CRA taxes, making dividend stocks such as Emera top bets for this account.

Shares of Emera are trading at $56.2, which is 8% below its 52-week high. It has a dividend yield of 4.4%, which means a $6,000 investment in Emera stock will generate over $260 in annual dividend payments. Emera stock has gained 72% in the last 10 years as well, making it one of the top-performing stocks on the TSX.

Emera is an energy leader and a North American utility giant with $34 billion of assets. It serves 2.5 million customers in Canada, the U.S., and the Caribbean. The Canadian heavyweight is now eyeing investments in high-growth verticals such as renewable energy.

The company is optimistic about creating long-term wealth for shareholders with its diversified portfolio and focus on growing earnings and cash flows to increase dividend payments over time.

CATEGORY

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1. TSX:EMA (Emera Incorporated)

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