CRA Tax Break: Turn $500 Into $10,000 Tax Free!

Description

There have been a multitude of benefits offered to Canadians during the pandemic. Most of those benefits have been short term during this emergency. Yet there have been a few added during the last year that have quietly gone live. Some of them even provide a tax break that apply during this pandemic.

One of those is the digital news subscription tax credit. This tax break offers a non-refundable credit for any amounts paid after 2019 and before 2025 for subscription expenses that qualify. The maximum credit you can receive can go up to $500 for the year. While this might not seem like much, there's a lot that can be done with $500.

The digital details

What actually qualifies for this expense, and how is it calculated? First of all, you need to make sure any of your digital news subscriptions fall under the qualified Canadian journalism organization. These organizations also need to mainly create original written news content and not be a broadcaster. To receive the tax break, you must then take the lowest personal income tax rate of 15% and multiply it by the total amount you paid for qualifying subscription expenses for the year — again, to a maximum of $500 per year.

Now that you have that $500, you could absolutely pocket the cash once you've paid for your subscriptions. However, if you've paid them off, it's the perfect opportunity to invest that cash. The tax break gives you $500 to put towards any company, and now is a great time to at least do some research. With more downturns likely in the future, you can do your research, wait for a downturn, and invest once there's another dip.

If that's the case, I would highly consider blue-chip companies. Blue-chip stocks are the perfect option for this tax break, as each are leaders in each industry, usually household names. The companieshave decades of strong historical performance and strong futures as well. By putting that $500 to oneof these companies, you stand a high chance of predicting share growth.

RBC stock

If you're going to take this route, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is an excellent option. The company has 156 years behind it and is Canada's largest bank by market capitalization. It's the definition of strong and stable. The stock is still below pre-crash prices, falling with the markets by almost 40% back in March. As of writing, it still has a potential upside of 15%.

Now you can't ignore that there should be more downturns in the market with the pandemic still raging. The bank is invested in the Canadian housing industry and the oil and gas sector, so in the near term, there should still be some below-average performance. However, even with these downturns Canadian banks as a whole tend to bounce back quickly. The bank will continue to be around for decades, along with its strong dividend yield, which currently sits at 4.57%.

Bottom line

So, let's say you invest that $500 tax break into Royal Bank during an dip in the markets. In a year, share prices should reach pre-crash prices again. That alone would turn your investment into $770! But then let's say you reinvest dividends with that initial investment, not even adding to it in that time. That could turn your initial investment into $10,947.71 with reinvested dividends in the next 25 years!

While I would always recommend automatic contributions to your portfolio, or at least investing when you can, this is a great start. You can take that $500 and see it grow for decades. You could also consider adding that $500 tax break each year, making that $10,000 even higher! But clearly you can see that given time, even just $500 can take you far.

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