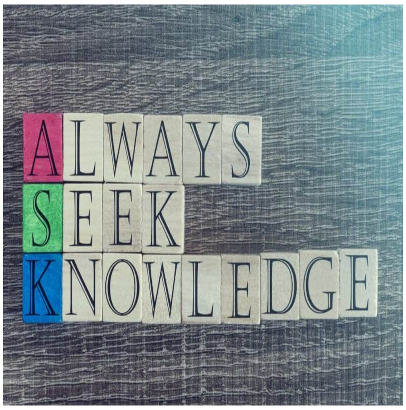

CRA Tax Breaks: How to Reduce Your Tax Bill This September

Description

The economy has just started to re-open and many Canadians are still cash-strapped. In such a scenario, a heavy tax bill will only add to your burden. While filing your 2019 returns, you might want to check out the various tax breaks and deductions that can reduce your tax bill.

The CRA tax breaks

The CRA allows you to deduct various expenses, which it deems necessary to live a comfortable life. For instance, the CRA allows parents to deduct child care expenses and students to deduct tuition expenses.

If you have a pretty high taxable income for the 2019 tax year, you might want to consider these three deductions.

Personal amount

The personal amount is the bare minimum amount that the government feels a person needs to meet its necessities. For 2019, the federal personal amount is $12,069. Every province has a different personal amount like Ontario’s amount is $10,582 and Nunavut’s is $16,000.

I will take an example of Henry, who lives in Ontario and has an annual working income of $60,000. Based on his income, he has to pay $13,300 in income tax after adding both federal and provincial taxes. He can deduct the personal amount from his $60,000 income.

The federal tax is 15% on the first $48,535 of taxable income, and 20.5% on the next $48,535. When Henry deducts the personal amount, his taxable income falls below $48,535, thereby saving him 5.5% in federal tax. His overall tax bill reduces to $9,880.

Canada employment amount

The CRA gives employees an employment deduction of up to $1,222 on federal tax for work-related expenses, such as home computers, uniforms, and supplies. Going back to my previous example, Henry can deduct $1,222 from his taxable income and reduce his federal tax by another $183. His overall tax bill is now reduced to $9,694.

How to reduce your tax bill with RRSP

Now, Henry can reduce his tax bill to zero by investing in his Registered Retirement Savings Plan (RRSP). The CRA allows Canadians to invest 18% of their earned income up to a maximum of $26,500 in RRSP. Henry can invest up to $10,800 (18% of $60,000) in RRSP and pay $0 tax in September.

However, the CRA will charge Henry tax on this money when he withdraws the amount from his RRSP at a future date. It is advisable to use RRSP when your current tax rate is high. The idea behind RRSP is that you will earn a lower income after retirement. Hence, you claim the benefit in the present, when your tax rate is high, and pay the tax in the future, when your overall income and the tax rate is lower.

Investing in RRSP

For your RRSP, look for low-risk stable stocks that can generate good returns in the long-term. One such stock is **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX), Canada's largest provider of supply chain management solutions. The company enjoys double-digit growth in revenue and adjusted EBITDA.

Descartes has a diversified customer base from airlines to e-commerce companies. It has further diversified its service offerings from end-to-end solutions to a specific service or a single transaction. During the height of the COVID-19 pandemic, when international travel was restricted, airlines reduced their capacity by 90%. But the e-commerce sector saw a boom.

For Descartes,

In the last 10 years, Descartes's stock rose at an average annual rate of 20%. If you had invested in the stock in January 2010, you would now have $126,000 in your RRSP.

CATEGORY

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TICKERS GLOBAL

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2. TSX:DSG (The Descartes Systems Group Inc)

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