3 Major CRA Tax Breaks That Will Reduce Your Tax Bill for 2020!

Description

The deadline for filing your 2019 taxes is just around the corner. The Canada Revenue Agency (CRA) has extended the tax-filing deadline to September 30 to help ease the financial burden on millions of Canadians impacted by the COVID-19 pandemic, and it is unlikely to be extended further.

However, there are a few tax breaks authorized by the CRA which will help you lower your overall tax liability. We'll look at three such tax breaks that you should consider before filing your taxes for 2019.

Basic personal amount

The basic personal amount, or BPA, is a non-refundable tax credit that can be claimed by all Canadians. The BPA aims to provide a full reduction from federal income tax to all Canadians with taxable income below the BPA. It also provides partial reduction to taxpayers with taxable income above the BPA.

In 2020, the maximum BPA was increased to $13,229 from $12,298 for individuals with net income below $150,473. This figure is gradually reduced for Canadians with net annual income between $150,473 and $214,368, after which the change in BPA does not apply.

Workspace-in-the home expenses

The CRA allows Canadians to deduct expenses related to your workspace if you are working from home. In order for a portion of your home to be classified as a workspace, you should have spent over 50% of time working from home or if you have used the space to meet clients regularly.

If you have converted 25% of your home area into your workspace, you can deduct 25% of related expenses including rent, utilities, property taxes, and home insurance. However, you cannot deduct mortgage payments or broadband bills under this break. This is an important tax break considering many Canadians have largely been working from home amid the pandemic.

RRSP contributions will lower CRA taxes

The third deduction that can lower your taxes is RRSP contributions. The RRSP is a retirement savings plan and these contributions can reduce their tax bill significantly. For example, if you earn $75,000 a year, you can contribute up to 18% or $13,500 into the registered account annually.

The RRSP can hold several investments that include dividend-paying stocks such as **TC Energy** (TSX:TRP)(NYSE:TRP), a diversified Canadian infrastructure giant. TC Energy stock is trading at a price of $60.5, which means it has a forward yield of 5.4%.

So, if you invest $10,000 in this stock, you can generate $540 in annual dividend payments. This dividend-growth stock is a perfect long-term buy for your retirement account. TC Energy aims to increase dividend payments between 8% and 10% in 2021 and at an annual rate of between 5% and 7% post-2021.

TC Energy generates a stable stream of cash flow backed by its contractual business model. It has a payout ratio of less than 50% and a strong balance sheet. Further, the company continues to invest heavily in expansion programs that will help TC Energy increase cash flow and support dividend-growth initiatives.

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