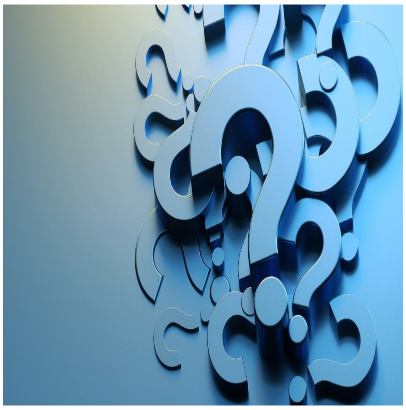

Canada Revenue Agency: Did You Claim the $1,810 Basic Personal Amount Tax Credit?

Description

Canadian taxpayers can claim a non-refundable tax credit while filing their taxes. This tax credit is known as the basic personal amount, or BPA. The BPA is adjusted for inflation and other macro factors, and this figure stood at $12,069 for 2019.

Each province and territory also sets a BPA amount and allows taxpayers to claim a percentage of their non-refundable tax credit, which will reduce overall payable taxes by that amount. The federal government allows Canadians to claim 15% of their non-refundable tax credits.

For example, John had a taxable income of $39,000 in 2019. This means he would pay a federal tax of $5,850 on that income. The tax credit for his BPA in 2019 is $12,069, and he can claim 15% of it, which amounts to $1,810.35. This tax credit will reduce his federal income tax to $4,039.65.

The Canada Revenue Agency cannot tax TFSA withdrawals

While these savings help to reduce your taxes, you also need to put this capital to work. You need to leverage the benefits of holding investments under a Tax-Free Savings Account (TFSA).

The Canada Revenue Agency does not tax withdrawals from your TFSA, which makes it an ideal account to hold dividend-paying stocks such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

This means you can generate dividend income under a TFSA and reinvest it to benefit from the power of compounding. The TFSA contribution limit for 2020 is $6,000, while the cumulative contribution limit is $69,500 for an individual.

Royal Bank of Canada is the country's second-largest company in terms of market cap. In the second quarter, the company reported earnings of $3.2 billion and earnings per share of $2.2, as it absorbed $675 million in provisions for credit losses. Further, RY's pre-provision pre-tax earnings of $4.8 billion rose 6% year over year, driven by strength in capital markets as well as growth in its insurance andnon-U.S. wealth-management business.

Due to sluggish macro-economic conditions, Royal Bank of Canada recorded $2 billion in credit downgrades in the June quarter compared to $9 billion in Q1. The company said, "The downgrades have largely been in our corporate portfolios and capital markets, with over half related to COVID-19 vulnerable sectors. Following a detailed review of the corporate portfolio last quarter, the rate of corporate credit downgrades slowed materially this quarter."

It added, "We did see a slight deterioration in our Canadian commercial portfolios, and we expect the gradual impact of credit migration in these portfolios to continue in the coming quarters."

What's next for investors?

Royal Bank of Canada is the country's largest bank. It has witnessed multiple recessions and emerged stronger every time. Investors are worried about the rising unemployment rates in Canada, which will also increase the default rates for RY and peers.

The second wave of COVID-19 cases might result in partial economic shutdowns and a slowdown in consumer spending. Further, a low interest rate environment will hurt profitability for banks but will be offset by higher demand for mortgage and other loan products.

Royal Bank of Canada stock is trading at $93.3, which is 15% below its 52-week high. This indicates the stock has a forward yield of 4.63%. So, a $6,000 investment in this blue-chip stock will yield close to $280 in annual dividend payments.

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Date
2025/08/25
Date Created
2020/11/03
Author
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