# Canada Revenue Agency: Your CPP Taxes Will Increase in 2021!

### Description

If you're a working-age Canadian, your tax bill is going to increase significantly next year. Thanks to a new CRA announcement, the portion of your paycheque that goes to CPP premiums will increase dramatically. While CPP taxes were already scheduled to go up because of CPP enhancement, this latest decision makes the increase even more dramatic.



You could potentially be looking at hundreds of dollars in extra taxes in 2021. This is a major tax increase that you have to start planning for. Fortunately, there are ways to combat it, as you'll see shortly.

## Higher pensionable earnings

On November 3, the CRA announced that it was hiking the maximum pensionable earnings from $58,700 to $61,600. The tax increase resulting from this could be as high as $316. Here's how that breaks down:

- You pay CPP premiums on all of your pensionable earnings.
- Pensionable earnings are increasing by $2,900.
- If you earn $61,600 or more, that's an extra $2,900 in pensionable earnings for you.
- If you're an employee, you'll pay a 5.45% CPP premium on that — or $158.05.
- If you're self-employed, you you'll pay a 10.9% premium — or $316.1.

To be sure, you need to be making a certain amount of money for this CPP premium hike to affect you. $58,700 is this year's ceiling, so if you earned that amount or less, you'll see no increase. However, there's another CPP premium increase coming that will affect you no matter how much you earn.

## CPP enhancement

CPP enhancement is a program designed to increase how much money CPP pays out to beneficiaries. That sounds nice, but it comes with increased CPP premiums. In 2021, employee premiums are increasing by 0.2%, while self-employed premiums are increasing by 0.4%. This CPP premium increase kicks in no matter how much you earn.

## How to counter the taxes

If you're worried about increased CPP premiums eating into your income, you have a few options to counter it.

One of the best is to invest in a TFSA. The TFSA is a tax-saving account that lowers your tax rate on investments. It doesn't *directly* counter the CPP tax, because that's based entirely on employment income. But it lowers your overall tax rate, which can offset the effect of increased CPP premiums.

Let's look at an example to illustrate how it works.

Imagine that you held $69,500 worth of **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock. RY is a dividend stock with a 4.5% yield. That means you get $3,127 in annual cash back on every $69,500 invested. On that $3,127 in dividends, you'd likely pay significant taxes. If your marginal tax rate was 33%, you'd pay about $776 in dividend taxes.

That's lower than the 33% you'd expect, because dividends have a generous tax credit applied to them. But it's still a fair amount of money. On top of that, if you realized a $10,000 gain on your RY shares, you'd pay a 33% tax on half of it. That's another $1,650 in taxes.



Between dividends and gains together, you'd pay about $2,462 in taxes. Unless, that is, you held the shares in a TFSA. If you did that, you'd pay $0 in taxes, resulting in $2,462 in savings. That's *way* more than the extra $158-$316 you might pay from CPP pensionable amount increases. And all you need to do is hold your investments in a TFSA!

**CATEGORY**

1. Dividend Stocks

**TICKERS GLOBAL**

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

**Category**

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