



CRA: Big Changes for RRSP and CPP in 2021

Description

The [Canada Revenue Agency \(CRA\)](#) has made annual announcements about the nation's retirement programs. Namely, the Canada Pension Plan (CPP) and the Registered Retirement Savings Plan (RRSP) are being updated as we enter the new year.

Here are the changes you need to know and how to use them to your advantage.

CRA raises CPP ceiling

In 2021, the maximum pensionable earnings under the CPP will be \$61,600. That's a whopping 4.9% higher than the \$58,700 ceiling in 2020. CRA has also raised the rate of employee and employer contributions to 5.45% from 5.25% last year and the self-employed rate to 10.9% from 10.5% last year.

This means Canadians will be paying more towards their CPP in 2021. Of course, this has nothing to do with the ongoing economic issues. Instead, the rates are decided based on a CRA-mandated formula that accounts for wage and salary growth over the past year.

CRA updates RRSP limit

Similarly, the CRA has also raised the cap on the dollar amount Canadians can contribute to their RRSP in 2021. The dollar limit is set at \$27,830 for 2021 — up from \$27,230 in 2020. Although that extra \$500 doesn't seem like much today, it could add a significant boost to your portfolio if invested in the right stock.

Invest your extra RRSP

I prefer high-growth companies that are likely to survive for several decades in my RRSP. The program is particularly well suited to long-term investing. With that in mind, my top pick for your expanded RRSP in 2021 is **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)).

In an increasingly uncertain year, Fortis has been rock steady as an income stock investors can rely on. The stock price is basically flat year to date, while the dividend yield at 3.75% is far higher than any “high-interest” savings account you can find right now.

Fortis's dividend stability is based on two key factors: the business model and the management team's conservative approach to cash management. For one, supplying electricity is a business that is disconnected from the rest of the economy. People pay their Hydro bill, even in a pandemic and historic economic crisis. That keeps cash flowing in for Fortis.

Fortis management keeps a tight lid on this cash flow. Over the past year, they paid out just 72% of earnings in dividends. That means more than a fourth of cash flow is reinvested into the business or held in reserve. This cash buffer makes Fortis a lot more reliable if you're looking for a safe place to park your money.

That's what makes it ideal for your spare RRSP contribution in 2021.

Bottom line

The CRA has updated rules about the CPP ceiling and RRSP contribution limit for 2021. Both programs are a critical part of the financial future for every Canadian. Investors should use these generous tax incentives to boost their portfolio with all-weather dividend stocks like Fortis. Fortis's decades-long dividend-growth trend looks likely to continue.

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