Canada Revenue Agency: How to Claim the $1,146 Age Amount Tax Credit?

Description

The Canada Revenue Agency (CRA) offers many benefits to retirees after they turn 65. The average retirement age in Canada has increased to 64 from 60 in the late 1990s, according to the Labour Force Survey. Many Canadian are retiring late because of higher life expectancy, higher education, less physically-demanding jobs, and delayed life transition.

One of the biggest reasons for these delays is the financial situation, especially after the 2009 Financial crisis and the shift to a defined-contribution pension plan from a defined-benefit plan. As people work past 65, the CRA offers them an age amount tax credit.

How does the age amount tax credit work?

The CRA age amount is a non-refundable tax credit. It relieves you from the minimum federal tax charged on the age amount of up to $7,637. As the 2020 minimum federal tax rate is 15%, you can claim the age amount tax credit of up to $1,146 (15% of $7,637). The CRA changes this age amount every year to adjust for inflation and income. In 2019, the age amount was $7,494.

So how do you claim this benefit? You simply deduct the age amount from your 2020 taxable income. You can deduct the complete age amount if your 2020 net income is $38,508 or less. If your income is above that, your age amount will reduce by 15% of the income you earned between $38,508 and $89,421. If you earn above $89,421, you can't deduct the age amount.

For instance, Amy is working past 65 years of age, and her 2020 taxable income was $50,000, which is $11,492 above the age tax credit threshold. She can deduct $5,913 ($7,637-$1,723, which is 15% of the surplus income) in the age amount from her taxable income. This way she can reduce her federal tax bill by $887.

With the exception of Quebec, some provinces also offer age amount tax credit. Ontario allows you to deduct $5,166 in the age amount if your net income is $38,463 and reduce your provincial tax by $261. You can't claim this tax credit at a net income of over $72,903.

The CRA introduced the age amount as it also offers several defined-contribution pensions that are taxable. It offers an Old Age Security (OAS) pension of up to $614 and a Canada Pension Plan (CPP) of up to $1,175.83 every month.

How to maximize your age amount tax credit?

Just by turning 65, you can reduce your tax bill by $1,407 if you live in Ontario. You can maximize this amount by investing it in a dividend stock through your Tax-Free Saving Account (TFSA). The CRA won't tax you on the TFSA investments, and your tax savings can work for you.

A good dividend stock to invest in right now is **RioCan REIT** (TSX:REI-UN). The stock fell 45% to $15, a level that was last seen in the 2009 crisis. But the REIT emerged from the 2009 crisis and surged 90% in three years as the economy recovered. Anyone who invested $1,000 in the REIT at its dip earned $900 in three years through capital appreciation.

History is repeating itself. RioCan stock is down, which has increased its dividend yield to 9%. The REIT's third-quarter earnings showed that it has sufficient cash flows to continue paying the same dividend per share. And when the economy recovers in the next three to five years, the stock will return to the pre-pandemic level of $27, representing an upside of 80%.

Investor corner

If you invest your $1,400 in tax savings in RioCan, it will fetch you $126 in annual dividend, and in three to five years, convert your $1,400 to $2,500. And as it is in your TFSA, this money will be exempt from taxes.

CATEGORY

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