
CRA: 3 Major Tax Changes Coming in 2021

### Description

The Canada Revenue Agency (CRA) frequently changes and updates the tax system depending on the state of the economy and prevailing government policy. This year, the CRA must also account for the record deficit and impact of the coronavirus.



With that in mind, here are the top three major tax changes going into effect next year.

## The CRA is raising the CPP contribution

The CRA is raising the maximum pensionable earnings under the Canada Pension Plan (CPP). The ceiling is set to rise 4.9%, from $58,700 to $61,600 in 2021. That means most Canadian taxpayers, whether they're employed or self-employed, will pay more for the CPP contributions next year.

## The CRA has raised the ceiling on RRSP contributions

While the higher ceiling on the CPP is clearly bad news, the CRA does have some good news for taxpayers. The ceiling on the Registered Retirement Savings Plan (RRSP) is also rising next year. The amount you can deposit in your RRSP account in 2021 will be $600 from last year — a maximum of $27,830.

## TFSA changes could be announced soon

All the changes mentioned above are based on a CRA-mandated formula that takes inflation and wage growth into account. This is why no expert can accurately predict what the CRA will do to these programs in any given year.

However, investors and taxpayers won't have to wait for too long to learn what changes are planned for the Tax-Free Savings Account (TFSA). The CRA will publish an "indexation factor" and adjust the TFSA contribution limit to the closest $500 within a few weeks. Investors should keep a close eye on this.

## Maximize the RRSP and TFSA

While the CPP will be invested on your behalf, what you do with the TFSA and RRSP is up to you. The biggest mistake you can make is not maximizing these programs to secure your future.

Leveraging these programs could potentially put tens of thousands of dollars at your disposal to invest without tax consequences. This amount could be deployed in a robust dividend stock, such as **TransAlta Renewables** (TSX:RNW).

As should be apparent now, the transition to cleaner, greener fuels is a multi-trillion-dollar opportunity. TransAlta is one of the largest providers of clean energy in North America, and that's what makes its long-term growth trajectory so robust.

The stock currently offers a 5.5% dividend yield and trades at two times book value per share. In my view, that's a bargain given the current environment. TransAlta would be an excellent target for your additional $600 in RRSP contributions next year. Of course, it would be an ideal fit for your TFSA as well, even if the contribution limit remains unchanged.



## Bottom line

The CRA modestly changes the pension and savings schemes every year. Changes to the RRSP and CPP have already been announced, and we're waiting on an update to the TFSA shortly. As the CRA offers you more room to invest, deploy this extra tax-shielded cash wisely.

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