CRA Alert: These 2 CPP Changes Will Increase Your Taxes in 2021!

Description

CPP taxes are going up in 2021. Thanks to two upcoming changes, the amount of your tax bill that goes to CPP premiums will increase significantly. One of these changes affects everyone no matter their income level, while another applies only to those earning over $58,700. In this article, I'll explore both of these changes in detail and discuss what you can do to offset extra taxes in 2021.

CPP enhancement

CPP enhancement is the first big change coming that could increase your tax bill in 2021. It's a gradual increase in CPP premiums taking place from 2019 to 2023. In 2020, the employee rate increases from 5.1% to 5.25%. You'll see the effect of that when you file your 2020 taxes next year. In 2021, the employee rate increases from 5.25% to 5.45%. That applies next year, and you'll see the effect when you file your taxes in 2022.

Pensionable earnings increase

The second big change coming that could increase your CPP taxes in 2021 is an increase in pensionable earnings. In 2021, maximum pensionable earnings increase from $58,700 to $61,200. That means that if your earnings are over $58,700, your CPP premiums will increase. The changes apply to the 2021 tax year, so you'll begin to see their effects when you file in 2022.

Unlike CPP enhancement, the pensionable earnings increase may not affect you. All Canadians will pay higher CPP premiums because of enhancement, only those earning over $58,700 will pay higher taxes because of the earnings ceiling increase. If you're a lower income earner, the effect of CPP enhancement will be quite minimal. Perhaps you won't even notice it. If you earn over $58,700, the combined effect of enhancement and the earnings ceiling increase will likely be noticeable.

How to counter tax increases

Unfortunately, there is no way to directly counter increased CPP premiums. This “tax” goes entirely off of employment income, so there’s no way to shelter earnings from it. If you’re self-employed, you could possibly claim more deductions to get your income lower, but that comes with increased risk of audit. Really, if you want to be safe, you should focus on lowering your *overall* taxes by sheltering your *investment* income.

Here, you have plenty of options available to you that are perfectly legal — even encouraged!

For example, if you hold dividend stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY), you could hold them in a TFSA and skip all the taxes you’d normally pay on them. TFSAs generate massive tax breaks that lower your total taxes — assuming you’re going to be holding investments one way or the other. In the case of a dividend stock like Royal Bank, the tax savings are really substantial. Such stocks generate taxable income whether you like it or not. Dividends are taxable the second they’re paid. That’s true whether you take the cash or reinvest it.

Royal Bank stock yields 4.31% at today’s prices. That means that on a $50,000 position, you get $2,155 in annual dividends. Outside a TFSA, that could result in hundreds of dollars in taxes. Inside a TFSA, the tax bill would be $0. So, holding the stock in a TFSA gives you a big tax break. Depending on your income level, this “tax break” could be bigger than the tax increase from CPP premiums rising.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2020/11/13

Author
andrewbutton