



Canada Revenue Agency: Claim up to \$410 in CPP Contribution Tax Credit in 2020

Description

Planning for retirement is crucial, and many Canadians are unable to do that. Hence, Service Canada does it for you. Once you turn 18 and start earning above \$3,500 annually, either as an employee or a business owner, Service Canada enrolls you in the Canada Pension Plan (CPP). The only exception to CPP is people living in Quebec, as that province has its own pension plan.

Coming back to the CPP, Service Canada requires you to contribute a certain percentage of your income above \$3,500 towards the plan. If you are an employee, your employer will directly deduct your CPP contribution from your pay. You will get the benefit of these deductions when you file your tax returns. Yes, the Canada Revenue Agency (CRA) gives you a tax credit on CPP contributions. You also get the CPP benefit after you turn 60, but I will leave that discussion for some other time.

The CPP Contribution Tax Credit for 2020

In 2019, Service Canada initiated the CPP enhancement program, wherein it will increase the contribution rate and pensionable earnings modestly over the next seven years. For 2020, Service Canada increased the CPP contribution rate to 5.25% on pensionable earnings between \$3,500 and \$58,700. This means the maximum you can contribute to CPP is \$2,898, which is 5.25% of \$55,200 (\$58,700-\$3,500).

However, for the CPP contribution tax credit, the CRA looks at the base rate of 4.95%. For 2020, your maximum base CPP contribution will be \$2,732. The CRA exempts the 15% federal tax on this amount, which equates to \$409.86. However, about \$410 is the maximum CPP contribution tax credit you can claim if your 2020 net income is \$58,700 or more. If your 2020 income is lower than this limit, here's how you calculate your CPP contribution tax credit.

For instance, Wayne earned \$50,000 net income in 2020. His base CPP contribution totaled \$2,301 (4.95% of \$46,500). He can get a federal tax credit of \$345 (15% of \$2,301).

What can you do with the \$400 CPP Contribution Tax Credit?

A tax credit of about \$400 can go a long way only if you make it work for you. You can either use the \$400 to buy a game console or buy this stock that can convert it to \$800 in two years. **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) stock is the turnaround story of the pandemic. It covered the journey from \$12 to \$59 in less than nine months and is still growing. To give you a feel of what it means to hold Lightspeed stock, it converted \$400 to \$1,350 between April 9 and November 20.

Where is Lightspeed stock getting this level of growth? The answer is pandemic. The COVID-19 pandemic has made social distancing a new norm. People are avoiding crowded places, cash payments, and eating out. But shops and restaurants can't stay out of business till the vaccine comes and circulates worldwide. Hence, they are going digital with the Lightspeed platform. This platform is getting them customers and helping them process the orders through contactless payments, shipping, curbside pickup, and online booking.

Lightspeed is catching up with the need of the COVID-19 economy and innovating and scaling up by tapping new markets. In the fiscal 2021 second-quarter earnings, its revenue surged 62% year over year, as more retailers and restaurants subscribed to the Lightspeed platform. Now this 62% is organic growth. It is also [acquiring](#) New York-based cloud commerce platform ShopKeep that will increase its revenue by more than 80% for fiscal 2021 ending March 31, 2021.

Lightspeed stock price momentum

Lightspeed stock has strong fundamentals and growth potential. At the start of the month, when the stock crossed the \$50 mark on the back of strong earnings, I [said that](#) the stock can sustain the \$50 price and surge further as revenue grows.

Today, the stock rose more than 7%, as COVID-19 cases surged significantly, with forecasts of a dramatic rise in cases if Canadians don't follow social distancing strictly. Even after the pandemic, Lightspeed stock will grow. Buy the stock before it becomes too expensive like **Shopify**.

CATEGORY

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