Canada Revenue Agency: Reduce Your Tax Bill by $1,984 in 2021 by Doing This

Description

There are multiple ways to reduce your tax bill that you pay to the Canada Revenue Agency (CRA). Taxpayers can make use of the several deductions and tax credits approved by the CRA to save on taxes. One such non-refundable tax credit is the basic personal amount (BPA).

What is the BPA and how does it work?

The BPA can be claimed by all individuals, and it aims to provide a full reduction from federal income tax for residents with taxable income below the BPA. In 2020, the BPA has increased to $13,229 from $12,298 for individuals with a net income of below $150,473.

So, this means the tax credit for Canadians with incomes up to $150,473 will be $1,984.35 ($13,229*15%). The BPA is adjusted for inflation and other economic factors and is expected to increase to $15,000 by 2023. This means your tax bill can reduce by $2,250 per year from 2023 if you consider the BPA.

For example, if you earned $39,000 in 2020, you will pay a federal tax of $5,850 on this income. So, by leveraging the BPA deduction, you can reduce your federal income tax bill to $3,866.

The Canada Revenue Agency cannot tax your TFSA withdrawals

Another way to save on paying taxes to the Canada Revenue Agency is by generating income inside a TFSA (Tax-Free Savings Account). Any withdrawals in the form of capital gains, dividends, or interests from your TFSA are exempt from CRA taxes.

This makes this registered account ideal to hold quality dividend stocks such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). The TFSA contribution limit for 2020 is $6,000, and if you invest this amount to buy TD stock you will generate $277 in annual dividend income, given its forward yield of a tasty 4.62%.

TD Bank has been underperforming the indexes in 2020 amid the COVID-19 pandemic. Investors were concerned over Canada's high unemployment rates that are still hovering around the 9% figure, which will increase the rate of defaults.

Further, a low-interest-rate environment will impact the profit margins of banks in the near term. Alternatively, it will increase demand for mortgage and corporate loans as access to debt capital is cheap.

In the third quarter, it delivered earnings of $2.3 billion, or $1.25 per share, which is significantly higher compared to earnings of $1.5 billion in Q2. TD attributed the improvement in earnings to volume growth, moderating provisions for credit losses as well as strong wealth and wholesale revenue.

TD's revenue was up 2% driven by volume growth across businesses and record wealth and wholesale revenue. Its provisions for credit losses declined by 32% sequentially to $2.2 billion driven by lower-performing PCLs.

The Foolish takeaway

TD Bank stock is just one example of a quality dividend company that has survived multiple recessions, and you can use this as a starting point to identify similar tickers. Canadian banks have shown resiliency in past economic downturns as well and have strong fundamentals.

With a payout ratio of less than 60%, TD's dividend is also relatively safe and gives the company enough room to increase these payments as well when the economy stabilizes.

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