Canada Revenue Agency: These 2 Tax Breaks Are Worth $2,400

Description

The 2020 tax year is coming to an end. This year has been very different than other years in terms of income earned. Many Canadians lost their jobs or got pay cuts. Some resorted to the emergency unemployment benefits the Canada Revenue Agency (CRA) offered. The $2,000/month in the Canada Emergency Response Benefit (CERB) increased household disposable income by 10.8% in the second quarter.

As the income changed, so will your income tax. It's time you learn about these two tax breaks as they can save you $2,400 in the 2020 tax bill.

The CRA offers many tax breaks, especially to low and middle-income earners. The tax breaks depend on your income, age, marital status, number of children, and much more. But two tax breaks apply to every person living and working in Canada and is above 18 years of age.

- Basic personal amount tax credit
- Canada Pension Plan (CPP) contribution tax credit

The basic personal amount tax break

For 2020, the CRA exempts you from the 15% federal tax on the basic personal amount (BPA) of $13,299. The only eligibility criteria to claim this tax credit is your income. You can reduce your federal tax bill by $1,984 as long as your 2020 taxable income is $150,473 or less. If you earn above $150,473, your BPA will phase out and freeze at $12,298 on income above $214,368. No matter how much you earn you can claim the BPA tax credit.

For instance, Jerry earned $55,000 in 2020 and his federal tax bill comes to $8,607 (15% on the first $48,535 and 20.5% on the remaining $6,465). He can reduce his tax bill to $6,622 by claiming the $1,984 BPA tax credit.

If you look at it this way, the BPA tax credit almost frees your $14,000 CERB payments from taxes.

CPP contribution tax break

The next tax break is the CPP contribution tax break. Here again, the only eligibility is your income. If you are above 18 years of age and earning more than $3,500 a year, you have to contribute a percentage of your income to the CPP. The CPP applies to employers, employees, and self-employed.

The CRA exempts 15% federal tax on the base CPP contribution, which is 4.95% of your income above $3,500 and below $61,600. Moreover, the CRA started a CPP enhancement in 2019, under which it increases the contribution rate and the maximum pensionable income every year. For 2020, the CPP contribution increased by 30 basis points to 5.25%. The CRA allows you to deduct the enhanced CPP contribution amount from your taxable earnings.

Going back to my previous example, Jerry contributed $2,888 to CPP in 2020, of which the basic contribution was $2,723, and the enhanced contribution was $165. By claiming the CPP contribution tax credit, he can further reduce his federal tax bill by $408 (15% of $2,723). Moreover, he can reduce his 2020 taxable income by $165 to $54,835.

How to increase your CRA tax breaks

By using the above two tax breaks where income is the only criteria, Jerry can save almost $2,400 ($1,984+$408.38) in federal tax. Like Jerry, you can also reduce your tax bill and use these tax savings to invest in a stable growth stock like **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX).

Descartes has a recession-proof business model because of its diverse customer base by industry, company size, and geography. It provides supply chain management solutions and further breaks down its offerings to a single solution. Descartes's growth is fuelled by the globalization of trade, growing complexities with the trade war, and the e-commerce wave. These trends have made it's solutions a necessity to make supply chain management efficient.

Trade growth will only make the supply chain complex. Even after a decade of strong growth, Descartes's revenue surged at a CAGR of 15% between 2015 and 2019. The stock has grown steadily over the last 10 years, with periods of slow or no growth. The stock has the potential to double your money in five years, growing at a CAGR of 20%.

Investor corner

Invest the $2,400 tax savings in Decartes through your Tax-Free Savings Account (TFSA). It can become $4,800 by 2025, and this money will be tax-free.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)

PARTNER-FEEDS

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

Category

1. Investing
2. Tech Stocks

Date
2025/09/06
Date Created
2020/11/20
Author
pujatayal