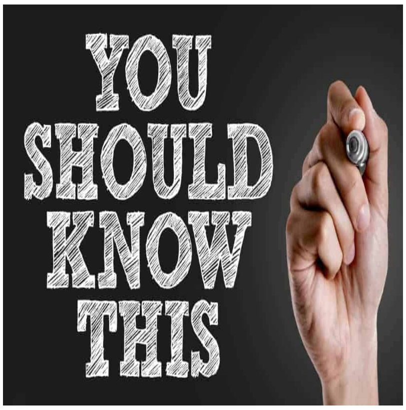

CRA 2021 Update: 1 RRSP Change You Should Know

Description

The Canada Revenue Agency (CRA) has had a monumental year in 2020 with all the changes it introduced during the global pandemic.

It took on the task of distributing one of the most generous stimulus programs called the Canada Emergency Response Benefit (CERB) to help affected Canadians. The government agency also delayed tax deadlines to help Canadians deal with their finances better during these tumultuous times.

The CRA still has its work cut out with the end of 2020 fast approaching. It announced that it would be introducing some changes to the Canada Pension Plan (CPP) and the Registered Retirement Savings Plan (RRSP) as we enter 2021.

Here are the changes you need to know and how you can benefit from them.

A change in the CPP

One change in 2021 we will see is that the CPP's maximum pensionable earnings will increase. With an almost 5% higher ceiling than the $58,700 in 2020, the update will make the ceiling $61,600.

The CRA also raised the employee and employer contributions to the pension plan from 5.25% to 5.45%. For self-employed individuals, the CPP contribution rates have subsequently changed from 10.5% to 10.9%.

It means Canadians will be making greater contributions to their CPP in 2021.

The RRSP change for 2021

While the CPP change is based on a mandatory formula used by the CRA, the government agency introduced a change to the RRSP.

According to the announcement, the dollar amount that Canadians can contribute to their RRSP will be greater in 2021. The dollar limit in 2020 was set at $27,230. With the 2021 update, Canadians can contribute a dollar value up to $27,830 to their RRSP in 2021.

Many people might not regard the additional $500 contribution they can make to their RRSP as a significant amount. However, using the additional $500 contribution room wisely to invest in the right stock can make a world of difference for you in the long run.

Making the best use of the RRSP update

Remember that the dollar amount increased by $500. It does not mean you are obligated to use the additional contribution room to hold cash. You can use it to hold the cash equivalent amount of shares in the tax-deferred account. The RRSP is an ideal long-term investment tool for building a retirement nest egg.

It could be useful to invest the additional $500 in an income-generating asset that can grow tax-free within the account to increase your account balance in the long run. A stock like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) could be ideal for this purpose in your RRSP.

Fortis is a utility company of the highest order. The company has enjoyed steady revenue in a year when most businesses have suffered severe declines. The recession-resistant stock is a staple investment for investors with a long-term horizon. Fortis is trading for $53.34 per share at writing, and it sports a decent 3.81% dividend yield.

The stock's valuation is almost in the same region that it was a year ago. Its relatively flat valuation in 12 months would make Fortis a boring stock under normal circumstances. However, its ability to remain consistent during a global pandemic shows its resilience in adverse economic environments.

Foolish takeaway

Stability is the name of the game when it comes to securing long-term financial growth for your retirement. Both the CPP and RRSP updates are designed to help you save more for your retirement. I think that it would be wise to use the additional RRSP contribution room to invest in reliable dividend stocks.

A stock like Fortis can provide you with consistent returns through its meager capital gains and reliable but increasing dividend payouts in your RRSP. The $500 may not seem like much right now, but it can grow significantly by the time you retire to make you a wealthy investor.

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