



Canada Revenue Agency: Big TFSA and RRSP Changes in 2021

Description

The Canada Revenue Agency (CRA) proactively makes adjustments to the tax system to align with the state of the economy and prevailing government policy. The [CRA had its work cut out](#) during 2020 due to the unprecedented global health and economic crisis.

With 2020 ending and paving the way for 2021, the CRA also has to account for the record deficit and overall impact of the novel coronavirus. Investors are keenly eyeing updates for the Registered Retirement Savings Plan (RRSP) and the Tax-Free Savings Account (TFSA) that will come into effect each year.

I will discuss the changes to both these account types and how you can make the most of the updates.

The CRA raised the RRSP contribution ceiling

The CRA announced earlier in November that it will be increasing the dollar amount for the maximum contribution limit to the RRSP in 2021. The dollar limit was \$27,230 in 2019. With the ceiling on the RRSP raised, the total amount you can deposit in your RRSP account in 2021 stands at \$27,830 — a \$600 increase from the amount last year.

CRA increased the TFSA contribution limit

The CRA also recently announced the new TFSA contribution limit for 2021. The government increased the dollar amount of the TFSA contribution limit by \$6,000, the same as it did in the 2020 update. With the most recent update, the total TFSA contribution room will go up to \$75,500.

Maximize your RRSP and TFSA

The RRSP allows you to enjoy a tax-deferred growth of your invested capital. Your investments within the account can continue to grow tax-free until the time comes to withdraw the amount as you retire.

The TFSA allows you to enjoy an [almost completely tax-free growth](#) of assets held within the account. Additionally, there are no early withdrawal penalties or taxes. Your assets held within the account can continue to grow and possibly put tens of thousands of dollars at your disposal in the long run.

Between the RRSP and TFSA, you have two excellent vehicles to secure a financially stable future. I would advise maximizing the contribution rooms in both the accounts using a diversified portfolio of reliable stocks. **TransAlta Renewables** ([TSX:RNW](#)) could be a stock that you can consider to build a robust, long-term investment portfolio.

The transition to greener and cleaner fuels is quickening with the increasing awareness of our impact on the environment. The burgeoning industry could be worth trillions of dollars in the long run. Investing in TransAlta could help you take advantage of the potential this industry has.

The underlying company is one of the most significant providers of clean energy in North America, and that can make its long-term trajectory phenomenal. The stock is trading for \$17.94 per share at writing, and it has a juicy 5.43% dividend yield.

TransAlta could be an ideal target for your additional contribution rooms. You can take advantage of the stock through its capital gains in the medium to long term while picking up its reliable dividends in the short term.

Foolish takeaway

Being prepared to take advantage of the RRSP and TFSA updates for 2021 is necessary. I think that you should take this time to figure out the most useful moves you can make to leverage the RRSP and TFSA updates. Consider building a portfolio of reliable dividend stocks that can also provide you with capital gains in the long run. TransAlta Renewables could be an excellent stock to begin building such a portfolio.

CATEGORY

1. Dividend Stocks
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1. TSX:RNW (TransAlta Renewables)

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