Canada Revenue Agency: How to Reduce Your Tax Bill by $2,420 in 2021

Description

As one of the most volatile years in memory comes to a close, millions of Canadians are looking forward to a much calmer 2021. While the Canada Revenue Agency (CRA) has provided residents with several benefits to help them overcome a difficult 2020, it will also expect Canadians to pay their tax dues next year.

However, the CRA also allows you to take advantage of several tax deductions that will lower your tax liability. Here we look at two tax breaks that are authorized by the Canada Revenue Agency.

The basic personal amount

Taxpayers can claim a non-refundable tax credit known as the basic personal amount, or BPA. The BPA is adjusted for inflation, and this figure for 2020 is $13,229, up from $12,069 for 2019.

Each Canadian province also sets a BPA amount, allowing taxpayers to claim a percentage of their non-refundable tax credit and reduce overall taxes payable by that amount. The federal government allows Canadians to claim 15% of their non-refundable tax credits.

So, if Janice had a taxable income of $60,000 in 2020, it means she would have to pay federal taxes of $9,630.32 and provincial taxes of $3,655.66 taking the total tax liability to $13,285.98. The tax credit for the BPA is 15% of $13,229, or $1,984.35, lowering her tax liability to $11,301.63.

Canada Pension Plan

The Canadian government also has a pension program known as the Canada Pension Plan (CPP). You contribute towards the CPP when you work, and you'll benefit from a steady stream of monthly income in retirement.

You can start contributing towards the retirement account once you earn over $3,500 per year. For 2020, the CPP contribution rate was increased to 5.25% of pensionable earnings between $3,500 and

$58,700.

So, the maximum contribution to the CPP will be $2,898, which is 5.25% of the difference between $58,700 and $3,500. So, in the case of Janice, her CPP contribution for 2020 will be $2,898. The CRA allows a 15% deduction on your CPP contributions and the maximum tax credit for 2020 is $434.7 for Canadians earning above $58,700.

The two tax credits will save close to $2,420 in total, and you can use these savings to invest in growth stocks such as **Lightspeed** (TSX:LSPD)(NYSE:LSPD).

Hold Lightspeed POS in your TFSA

The TFSA is a registered account where the Canada Revenue Agency does not tax your withdrawals. These withdrawals can be in the form of capital gains, dividends, or even interests. We can see the TFSA is an ideal vehicle to hold growth stocks that generate outsized gains over time.

So, how should you invest in growth companies? It makes sense to average out your contributions throughout the year to take advantage of market dips and corrections. With $2,400 in tax savings, you can invest $200 per month.

If you invested $200 every month in LSPD stock at the start of each month, you would have bought 69 shares at an average price of $34.78. Your investment in LSPD stock would have ballooned to $5,179 today.

Lightspeed is part of a rapidly expanding market and is well poised to drive the digital transformation journey for millions of restaurants and retailers. It has multiple secular tailwinds and should be on the radar of most growth investors.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:LSPD (Lightspeed Commerce)

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
2025/08/12
Date Created
2020/12/03
Author
araghunath