Uh-Oh! Your GST Taxes Could Rise in 2021!

Description

Canada's deficit surged to a record $381 billion in 2020. And Trudeau's government is already coming up with new ways to pay for it. Just recently, the feds announced that they'd begin charging GST/HST on foreign digital goods. Now, some think yet another GST tax hike is coming — this one applying to all goods, whether sold in Canada or elsewhere.

So, what is this GST tax hike, and why do some think it will be necessary?

Feds are mulling higher taxes

Enough deficit spending will require higher taxes eventually. More debt means interest expenses that take a bite out of spending on services. To plug the gap, the government will eventually need more revenue–whether by raising taxes or by nationalizing industries.

So far, it seems like higher taxes is the preferred plan. In its fiscal snapshot, the Trudeau government announced it would be moving forward with collecting GST/HST on foreign suppliers. That's effectively like a tax hike, because Canadians hadn't been paying it before.

There are also some who think that there will be an overall increase in the federal GST. Recently, the C.D. Howe institute forecast that Trudeau's new spending would require a 2% increase in federal GST — from 5% to 7%. So far, there are no specific proposals to do that. However, the C.D. Howe report showed that MPs were discussing it. Given the fact that efforts at implementing wealth taxes already failed to pass parliament, it definitely looks like higher GST could be on the horizon.

How to protect yourself

Higher GST is probably not something that most Canadians wanted in 2021. A regressive tax, the GST disproportionately impacts the poorest Canadians. But MPs have shown that they have no intention of taxing wealthier Canadians. An NDP motion to implement a one-time wealth tax was shot down, quashing that possibility in the near term.

Fortunately, there are ways to lower your tax bill — not the GST specifically, but the overall percentage of your income that you pay out in taxes.

One of the best ways is to hold dividend stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) in a TFSA. A TFSA is a special tax-sheltered account that spares you from having to pay taxes on investments. It’s particularly useful if you hold dividend stocks like RY, because dividend stocks are taxed automatically. With capital gains only stocks, you can avoid taxes by not selling. With dividend stocks, you can’t. So, it pays to hold such stocks in a TFSA.

Royal Bank stock yields about 4% at today’s prices. That means you get $2,000 in dividends back annually on a $50,000 position. With the TFSA’s limit now at $69,500 — set to increase to $75,500 — you can shelter the *entire* position in a TFSA. You can also avoid taxes on capital gains. Investing in a TFSA is simply one of the best ways to lower your tax bill — assuming you’re going to be holding investments one way or the other.

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