Canada Revenue Agency: How to Claim the $1,984 Basic Personal Amount Tax Credit

Description

If you earned income, you'll likely be paying income taxes to the Canada Revenue Agency (CRA). Here's a tip to claim a significant tax credit to reduce your taxes.

You can claim a basic personal amount (BPA) non-refundable tax credit for your income tax. In 2020, the personal amount for federal taxes is $13,229. The federal government lets taxpayers claim 15% of the non-refundable tax credit.

For example, if Jane's 2020 taxable income was $40,000, her federal income tax would be $6,000. She'd save $1,984.35, or 15%, of the BPA. Therefore, she'll only pay $4,015.65 of federal income tax for the year 2020.

Each province and territory also determine a personal amount for provincial or territorial taxes. So, your tax savings could be even bigger!

The Canada Revenue Revenue cannot tax your TFSA

While the $1,984 is wonderful savings, you need to put that money to work in your Tax-Free Savings Account (TFSA) to grow it faster. All earnings and growth in your TFSA are protected from the CRA. The CRA cannot tax it while the money is inside or when you make TFSA withdrawals.

Just be careful to avoid meaningful withholding taxes on foreign dividends. For example, if, in your TFSA, you buy a U.S. stock that pays qualified dividends, you'll get 15% automatically deducted when you receive the dividends from the foreign company.

Good dividend stocks for your TFSA

If you're looking for safe dividend stocks in your TFSA, you're in luck! Right now, **Fortis** (TSX:FTS)(NYSE:FTS) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) are relatively cheap. Not only do they provide a margin of safety for your investment at current levels, but they also offer market-beating dividend income.

Fortis has been a very resilient business during this pandemic year. Year to date, the regulated utility's adjusted earnings per share only declined by 2.6%.

In normal years, it's going to grow steadily as it has for the last number of decades. It's a Canadian Dividend Aristocrat you can trust with a backing of 46 consecutive years of dividend increases.

Going forward, Fortis estimates it can grow its dividend by about 6% per year. Currently, it yields 3.85%. So, if you fast forward five years, your yield on cost would be about 5.15%. A $1,984 investment would generate annual passive income of about $76 now and $102 in five years.

At $67 and change per share, BNS stock trades at a discount of close to 20% from what it can normally trade at. Its earnings are meaningfully down this year due to higher provisions for credit losses. Essentially, the bank has to set aside more money in anticipation of bigger percentages of bad loans.

Compared to its peers, the bank is especially impacted, with a material part of its operations in emerging markets. However, a multi-year global economic recovery can lead to outsized gains in this blue-chip bank stock.

Meanwhile, BNS stock starts you off with a dividend yield of 5.36%. A $1,984 investment would generate annual passive income of about $106 now. Certainly, it'd be able to increase its dividend again down the road when the macro environment stabilizes.

The Foolish takeaway

Investing CRA tax savings of $1,984 every year in your TFSA for 7% returns will lead to $87,028 in 20 years. Assuming a yield of 3.5% for the ending portfolio, you'd earn annual passive income of $3,045. These are conservative estimates, too.

Actually, your BPA tax credit is set to increase gradually, which will lead to greater tax savings and more capital to invest in your TFSA!

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)

2. NYSE:FTS (Fortis Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/07/08
Date Created
2020/12/08
Author
kayng