CRA Tax Savings: The RRSP Limit Is Increasing in 2021

Description

With the end of 2020 fast approaching, it is time to look forward to another year. I think you would agree with me when I say that 2020 was far from what you might have had in mind on New Year's Eve last year.

A looming threat of a third World War, wildfires burning across the Amazon forest and in the U.S., and an entirely new disease plaguing the world made it an unfortunate year. Canadian retirees saw their plans derailed due to the economic pressure of COVID-19 and ensuing lockdowns.

The Canadian government has been hard at work trying to counteract the problems through the Canada Revenue Agency (CRA). The government agency recently announced an update to the tax-advantaged Registered Retirement Savings Plan (RRSP) that will come into effect in 2021.

Here's what you need to know about the update and how you can take advantage of it with a reliable dividend stock.

Major RRSP change in 2021

The CRA adjusts the contribution limit to the RRSP each year to account for inflation. It recently announced the awaited 2021 update to the RRSP.

The RRSP contribution limit was capped at $27,230 through 2020. With the update, Canadians can contribute up to $27,830 to their RRSPs. The $600 update to the contribution limit might not seem like a big deal, but it can prove to be a monumental change for your retirement plans.

Using the additional contribution room in your RRSP with the right investments can help you turn that $600 into a much more significant amount in the long run.

Invest your additional RRSP

Canadians should look to make the most of this RRSP enhancement and target income-generating assets that are well positioned to provide them with substantial long-term returns. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is a name that always comes to mind when you want to look for long-term reliability.

It is one of the most significant financial institutions in the country. The banking sector has not had a great year in 2021. However, a strong run of performances in November saw banks on the rise again. Financial services companies and banks were hit hard by the effects of the pandemic, but Royal Bank of Canada has been one of the stronger financial institutions in Canada.

The stock declined by over 30% with the initial onset of COVID-19. After an impressive gain in November, RY is trading for $105.84 per share at writing. It is up 8.86% month over month, and it pays its shareholders at a juicy 4.08% dividend yield at its current valuation.

RY maintained a pessimistic outlook during the pandemic. Its emphasis on possible downside scenarios helped it prepare for significant hardships, keeping it afloat and comfortable during these challenging times. The outlook for 2021 looks much better for banks like RY, with the rollout of vaccines expected very soon.

Foolish takeaway

The RRSP has been designed to provide tax advantages to investments with a long-term horizon. When it comes to Canadian retirement planning, long-term investments hardly get better than with a banking stock like Royal Bank of Canada.

I think that investing in RY can help you increase the value of your RRSP contribution room to help you retire as a wealthy investor.

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