Canada Revenue Agency: 2 Huge Tax Changes Are Coming Your Way in 2021

Description

Taxes are inevitable but more painful if you have to pay them during a recession. Fortunately, tax changes are coming in 2021. The Canada Revenue Agency (CRA) made two highly anticipated announcements that will benefit Canadian taxpayers.

The annual contributions to the Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) are out. Both investment accounts offer tax advantages like no other. Likewise, users can save for retirement or achieve investing goals.

TFSA

The TFSA enables users to meet short-term and long-term goals. However, the real upside is that you can grow savings tax-free all the way. For 2021, the annual contribution limit is $6,000. Accordingly, the cumulative contribution room of someone who has never contributed since but is eligible is $75,500.

Other salient features of the TFSA are utilization and flexibility. You can use the account to save for any purpose. Withdrawals are tax-free, too, and you can re-contribute the withdrawal you made in 2020 (if the limit is maxed out) in 2021. Any unused contribution room this year carries over to the next year.

RRSP

RRSPs are primarily used to save for retirement. The maximum contribution limit for 2021 is $27,830. However, the actual deduction limit is always 18% of a user's reported income in the previous year. Like the TFSA, you can carry forward unused contribution room.

The beauty of the RRSP is that your contributions are tax deductible. It means any contributions may reduce the tax you pay on your personal income. Regarding withdrawals, your contribution room is lost for funds you withdraw. Furthermore, RRSP withdrawals are taxable.

Another advantage is the spousal plan in an RRSP. A TFSA has no such plan, whereas you can contribute directly to a spousal RRSP. In terms of plan maturity, your RRSP will mature at the end of the calendar year you turn 71. You must terminate the account. The TFSA has no upper age limit.

Eligible investment

An ideal strategy is to have a TFSA and RRSP if you can do both. Earnings in TFSA are tax-free and tax-deferred in an RRSP. For investments, dividend stocks are typical holdings in either account.

If you want an uninterrupted income stream, **Emera** (TSX:EMA) is a solid income stock. This $13.53 billion diversified utility company pays a 4.7% dividend. A $75,500 position will yield $3,548.50 in passive income. The business model is low risk, as more than 95% of total earnings come from regulated operations.

Emera's regulated portfolio consists of electric and natural gas utilities plus natural gas pipelines. The company serves residential, commercial, and industrial end-users across North America. Management plans to allocate over 70% of its capital investment program for Florida, where the regulatory environment is favourable.

The company will also increase investments in renewables, infrastructure modernization, and technologies. Because of its visible growth profile, analysts forecast the stock to climb to $68 (+25%) in the next 12 months.

Use for tax planning

The TFSA and RRSP are complementing accounts, especially for tax-planning purposes. Put more in your TFSA if you're in a low tax bracket and build your balance. Make contributions into your RRSP as you near a higher income bracket to lower your income taxes.

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