



CRA: New Limits for RRSP, TFSA and CPP in 2021 Announced!

Description

It's the end of 2020, and I think it's safe to say that all of us are looking forward to 2021. It's good riddance 2020 and time to start looking towards the future. And the Canada Revenue Agency (CRA) is on board with that message.

As per usual, in the last month, the CRA has come out with a list of new limits and maximum payments in a number of areas important to Canadians. This includes the Tax-Free Savings Account (TFSA), the Registered Retirement Savings Plan (RRSP), and the Canada Pension Plan (CPP). Let's look at what we can look forward to come January.

The TFSA

Since its creation in 2009, the CRA has added contribution room to the TFSA to allow Canadians to invest, you guessed it, tax free. Of course, there's a limit so that you can't simply invest everything into one fire stock that makes you an overnight millionaire. Instead, each year you get a few thousand dollars to invest.

As of Jan. 1, 2021, investors will have another \$6,000 of TFSA contribution room to work with. That brings the TFSA contribution limit to \$75,500 next year. And if you can, it's important that you max out on your contributions. With more market crashes coming down the line as COVID-19 rages on, you'll want your money put to work the best way it can: tax free.

Just make sure you check the CRA website or call them up to find out exactly how much room you have available. If you maxed out last year, you'll have \$6,000. But if you didn't, or you took some money out, you could have a lot more room to invest. So, double check, and don't overcontribute, or you'll be penalized 1% of your overcontribution each month until its corrected!

The RRSP

The RRSP contribution limit is actually different for every person. On the one hand, you might have a

limit that equals 18% of your earned income. If you make \$40,000 per year, for example, that's about \$7,200 in RRSP contribution room. However, just like the TFSA, there is also a limit to how much you can invest. If you make \$200,000, for example, your contribution would be \$36,000 without a limit!

So, in 2021, the previous limit of \$27,230 will be increased to \$27,830. That \$600 might not seem like a lot, but invested properly, you could turn that into a serious retirement nest egg. Don't have the cash to meet that limit? No worries! It carries forward all the way until you're 71, when the RRSP must be used.

CPP raises

Finally, the CPP enhancement program introduced in 2019 is still underway. That means there will continue to be increased cuts to your paycheque so that you can contribute to CPP. The goal is to have one-third of your average salary available upon retirement each year, whereas before it was one quarter.

In 2021, contributions will increase to 5.45% from 5.25% for employers and employees, and self-employed individuals will increase from 10.5% to 10.9%. Sure, right now this doesn't look great, but it sure will down the line when you retire with far more cash available.

Invest wisely!

Now that you have all the information available, it's time to look for ways to both make some strong [returns](#), hopefully, some passive income to replace that CPP cash, and create a strong nest egg for the future. A solid option to consider today would be **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)).

Algonquin provides utilities across North America, growing through acquisition over the last several years. It has also begun the process of investing in green energy projects, which should take over oil and gas during the next few decades. This means there are serious returns in your future.

But for now, you can be happy investing your cash in Algonquin for its amazing 583% return in the last decade, and solid dividend yield of 3.97% as of writing. If you were to take all new room [available](#) and invest in Algonquin for a total of \$33,830, you could grow that 10 times over with dividends reinvested! Meanwhile, you would bring in \$1,336.50 in annual dividend income as of writing.

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