



Canada Revenue Agency: How Will 2021 CPP Changes Reduce Your Tax Bill?

Description

This year, many Canadians lost their jobs, as the COVID-19 pandemic took a toll on businesses. The government initiated one of its biggest stimulus packages, distributing \$2,000/month in cash benefits. Things are gradually normalizing, and people are returning to work. The new year will bring changes to taxation and contributions. Service Canada is increasing the Canada Pension Plan (CPP) contributions in 2021 as part of its CPP enhancement program.

CPP changes in 2021

Under the CPP enhancement program, the base contribution rate is 4.95%. Service Canada adds an enhanced contribution rate every year and increases the maximum earnings on which CPP is deducted.

Note that you can stop contributing to the CPP under [special circumstances](#) by submitting a form to your employer. But I would suggest you use this option only when you are cash-strapped, because CPP contributions have many benefits.

For 2021, your employer will deduct 5.45% from the taxable income you earn above \$3,500 towards the CPP contribution. This is above 5.25% in 2020. And this enhanced rate will apply to income up to \$61,600, up from \$58,700 in 2020.

For instance, Jerry's 2020 annual salary was \$60,000, and it increased to \$62,000 in 2021. He will be paying maximum CPP contribution in both years, which is \$2,898 and \$3,166.45, respectively. His employer will contribute an equal amount towards his CPP and submit both employee and employer contributions to the government.

What do 2021 CPP changes mean to your tax bill?

The Canada Revenue Agency (CRA) will give Jerry [tax benefit on CPP contribution](#). Pay attention, as the tax benefit has two parts; the base rate of 4.95% and an enhanced rate of 0.5% (5.45% – 4.95%). The CRA exempts 15% federal tax on base CPP contribution and allows you to reduce the enhanced CPP contribution amount from your taxable income. In Jerry's case,

- His CPP contribution tax credit will increase by \$21.5 to \$431.4 (15% on \$2,876 base CPP contribution);
- And his enhanced CPP tax deduction will increase by \$125 to \$290.5 (\$3,166-\$2,876).

A \$431 tax credit can go a long way. The higher CPP contributions give you benefit in terms of a tax credit. When you retire between the ages of 60 and 70, you can get a higher CPP payout. I will leave the payout discussion for some other time.

How to enhance your \$431 tax credit

As you saved \$431 in your tax bill by contributing to your retirement, you can use this tax saving for some of your near-term goals. This is the right time to save. That \$431 amount might seem small, but you can double this money to \$860 by the time the pandemic is over.

Even though the COVID-19 vaccine has come earlier than expected, it will take another year or two for things to return to pre-pandemic times. In this time, you can put your \$431 tax saving in **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)). Lightspeed is a high-growth stock and comes with high risk, as it doesn't have a long history of robust performance.

To give you a glimpse of what high growth the stock offers, it fell 67.5% in the March sell-off, as it lost many customers. But it saw a quick turnaround, as it adjusted its omnichannel platform to the COVID-19 economy. This turnaround boosted its stock price six-fold from \$12 in March to \$75 at present. It is impossible to time the high and low of a stock price with accuracy. Hence, those who'd invested in Lightspeed stock in mid-April converted \$431 to \$1,200.

Investing in Lightspeed POS

Lightspeed stock has reached a new high and is trading at 56 times its sales per share. That's a high valuation for a company with an annual revenue run rate of 50%. The revenue will surge by almost 80% in 2021, as the company integrates its latest acquisitions of Upserve and ShopKeep.

But here comes the risk. If Lightspeed fails to garner revenue and cost synergies from these acquisitions, the stock's rally could slow. If Lightspeed can overcome this risk, it has the potential to double your money in a year or two.

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