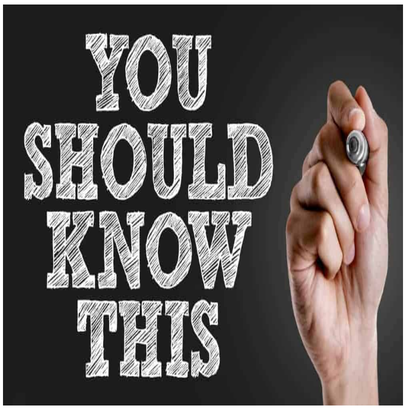

CRA: You Can Claim the $1,984 Basic Personal Amount Tax Credit in 2021

Description

The Canada Revenue Agency (CRA) provides multiple tax credits to Canadians to lower tax liabilities. Taxpayers can leverage these deductions and tax credits approved by the CRA and reduce their tax bill. A popular non-refundable tax credit is the BPA (Basic Personal Amount).

What is the basic personal amount tax credit?

The BPA is a tax credit that aims to provide a full reduction from federal income tax for residents with taxable income below the basic personal amount and can be claimed by all individuals.

In 2020, the Canada Revenue Agency has increased the BPA to $13,229 from $12,298 for individuals with a net income below $150,473. For Canadians with income below $150,473 the maximum tax savings will be $1,984.35 ($13,229*15%).

The BPA is adjusted for inflation and other economic metrics and the CRA expects it to rise to $15,000 by 2023. So, your income tax liability will gradually reduce by $2,250 on an annual basis by 2023 if you avail of the BPA tax credit.

For example, in case, Jude earned $39,000 in 2020, he would pay a federal tax of $5,850 on this income. Here we have kept the calculations very basic and have not included any RRSP deductions. So, by including the BPA tax credit, Jude's federal income tax bill will fall to $3,866.

Any TFSA income is also exempt from CRA taxes

The Canada Revenue Agency also allows residents to generate tax-free income under a Tax-Free Savings Account (TFSA). This income can be in the form of dividends, capital gains, or interests.

The TFSA is an ideal account to hold blue-chip Canadian stocks such as **Fortis** (TSX:FTS)(NYSE:FTS), a Dividend Aristocrat that has increased payouts for 47 consecutive years.

Fortis is a utility giant that's part of a recession-proof industry. It generates a majority of cash flows from regulated assets allowing the company to ensure a steady stream of revenue across economic cycles.

The demand for electricity and other utility services tends to remain constant which has supported dividend increases for Fortis. The company also has a conservative payout ratio of 76%, indicating it has enough room to increase dividends or reinvest in capital expenditure and cash-generating assets.

A $10,000 investment in Fortis will yield $381 in annual dividends, given the stock's forward yield of 3.81% — far higher than the returns you will generate from investing in bonds or other fixed-income instruments.

Further, Fortis stock will also appreciate in the long-term. In the last five years, shares of the Canadian utility giant have returned 56%.

The Foolish takeaway

Fortis owns over $50 billion in utility assets and has a vast presence in North America. Its diversified base of revenue and expansion of its asset base makes it a top buy for dividend investors.

Fortis' capital program is close to $20 billion, which will significantly boost its rate base in the upcoming decade. The company expects to increase dividend payouts at an annual rate of 6% through 2025.

CATEGORY

1. Dividend Stocks
2. Investing

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