Be Prepared: Your Employer Will Deduct Another $268 in CPP Contribution in 2021

Description

The year 2020 brought many nasty and good surprises for Canadians, as the pandemic changed the economy. Many Canadians lost their jobs. As we near the end of the pandemic year, the economy is normalizing. Many Canadians have returned to work. Heading into 2021, Service Canada is bringing changes to the Canada Pension Plan (CPP) contributions. These changes could increase your 2021 CPP deductions by as much as $268.5, or $22.4 per month.

Service Canada started the CPP enhancement program in 2019. Under this, it will increase the contribution rate every year till 2025 to give a higher pension to beneficiaries in their retirement years. For 2021, Service Canada has increased the CPP contribution rate to 5.45% (5.25% in 2020) and maximum pensionable earnings to $61,600 ($58,700).

How does CPP work?

The idea behind CPP is to help Canadians start saving for retirement the day they start earning. If you are above 18 and are working a job, your employer will deduct CPP from the income you earn above $3,500 and up to the maximum pensionable earnings. You can elect to stop contributing to the CPP under special circumstances, but that will impact your future payout.

The CPP has three elements:

- If your taxable working income is $50,000 in 2021, your employer will deduct 5.45% CPP contribution on $46,500 ($50,000-$3,500). Your annual CPP contribution comes to $2,534, or $211/month. Your employer will add an equal amount from their pocket as an employer contribution and submit it to the Canada Revenue Agency (CRA).
- The CRA will look at your CPP contribution and give you tax benefits on this amount when you file your 2021 tax returns.

- Meanwhile, Service Canada will invest your and your employers' CPP contribution in some securities and let your pension fund grow. When you apply to start getting a payout (between 60 and 70 years of age), Service Canada will calculate your monthly payout, which will be added to your taxable salary.

How 2021 CPP changes impact your pay

If you are employed, your employer deducts three things from your taxable salary: CPP contribution, Employment Insurance (EI) premium, and income tax. Hence, a higher CPP contribution rate will increase your deductions, even if your salary is the same.

I will take the case of Patrick. Due to the pandemic, his pay remained unchanged in 2021 at $65,000. He meets the maximum pensionable income threshold for both 2020 and 2021.

- In 2020, his employer deducted $2,898 in CPP contribution (5.25% of $55,200), as the maximum pensionable earnings was $58,700.
- In 2021, his employer will deduct $3,166 (5.45% of $58,100), as the maximum pensionable earnings have increased to $61,600.

Patrick will see an additional CPP deduction of $268.5, or $22.4 per month, in 2021 while his income remains unchanged.

Make your TFSA pay for your CPP

There is a way you can earn back your CPP contribution. If you have been saving in Tax-Free Savings Account (TFSA) for a decade, you will have more than $60,000 in your account, unless you made heavy losses.

The pandemic has created a dividend sale where good dividend stocks are available at heavy discounts of 25-45%. Take the case of **Enbridge** (TSX:ENB)(NYSE:ENB). The pipeline operator took a hit during the pandemic as oil demand reduced. Lower volumes of oil were transmitted through its pipeline, thereby impacting its revenue. However, strong cash flow from natural gas allowed Enbridge to maintain its dividends.

As oil demand recovers, Enbridge stock will recover. It has already surged 18% since the COVID-19 vaccine news changed the course of the pandemic-driven stock market. The stock has the potential to grow another 33% to reach the pre-pandemic level of $56.

Investor takeaway

A $40,000 investment in Enbridge will earn you over $3,150 in annual dividend income. It is equivalent to your CPP contribution. If Enbridge increases its dividend per share at a CAGR of 8%, your dividend income will surpass the CPP contribution.

CATEGORY

1. Dividend Stocks

2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/15
Date Created
2020/12/18
Author
pujatayal