



Canada Revenue Agency: CPP Pension and TFSA Limit Increasing in 2021

Description

The Canada Revenue Agency (CRA) is not remiss in reminding people who are concerned regarding the upcoming changes in 2021. Two important announcements are increases in the Canada Pension Plan (CPP) and Tax-Free Savings Account (TFSA) contribution limits.

CPP enhancements

The ongoing CPP enhancements affect millions of employed and self-employed individuals contributing to the pension fund. Employers are likewise affected, because they're mandated to cover 50% of their employees' contributions.

In 2021, the maximum pensionable earnings will increase from \$58,700 to \$61,600 due to the [increase in contribution rates](#). Effective January 2021, the employee and employer contribution rate is 5.45% (up from 5.25%), while the self-employed contribution rate will rise from 10.5% to 10.90%.

The CRA uses a legislated formula to calculate and arrive at the new ceiling of the maximum pensionable earnings. It takes into account the growth in average weekly wages and salaries in Canada. The tax agency won't require or permit CPP users to make additional contributions if earnings in 2021 are more than the \$61,600 limit.

Regarding the annual contributions, an employee and employer will contribute \$3,166.45 each instead of \$2,898. Self-employed individuals will contribute double or \$6,332.90, which previously was \$5,796. The basic exemption amount remains at \$3,500.

TFSA contribution room

The TFSA contribution limit for 2021 stays at \$6,000, the same in 2019 and 2020. However, the [cumulative contribution room](#) will increase from \$69,500 to 75,500. If you did not contribute to a TFSA since 2009 but are eligible, your available contribution room is that much.

Every year, the CRA sets an annual TFSA contribution limit that is indexed to inflation and rounds it to the nearest \$500. TFSA users can again contribute and max out the limit in 2021 to make more tax-free money. If you withdraw funds in 2020, you can re-contribute the amount next year. Also, your unused contribution will carry over.

Earn tax-free once more

The new TFSA contribution limit gives users additional room to invest. If you have shares of **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) in your TFSA, purchase more to grow your balance further. CIBC pays a generous 5.22% dividend.

CIBC is one of the beloved income stocks of TFSA users and retirees. The blue-chip asset is among the buy-and-hold stocks in the TSX. Your \$6,000 will produce \$313.20 in tax-free income. The resiliency of the fifth-largest bank in Canada is on full display in 2020.

After sinking to a COVID-low of \$64.42 on March 23, 2020, a CIBC share trades at \$111.98. The rally is an incredible 74%. Analysts covering the bank stock are bullish and forecast the price to climb 24% to \$139 in the next 12 months.

CIBC supports environmental sustainability and commits to helping clients and communities transition to a more sustainable future. This \$50.06 billion bank ranks among the top-tier global banks for climate change. It issued a US\$500 million, five-year green bond in 2020. The goal is to finance existing and new and green projects, including assets and businesses that mitigate climate change risks and effects.

Beneficial to Canadians

The new CPP and TFSA contribution limits in 2021 should matter to Canadians. Higher CPP contributions mean higher pension years from now. For the TFSA, users can continue pursuing financial goals and see their money grow tax-free.

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