



Canada Revenue Agency: Big Changes Coming in Your Paycheck in 2021

Description

This year was not something anyone expected. The new year brings new hopes and new uncertainties. While no one can say what 2021 has in store, one thing the Canada Revenue Agency (CRA) has clarified is the changes coming in your paycheck. The CRA can't determine your paycheck, but it can determine the deductions on your paycheck.

The CRA requires your employer to deduct three things from your taxable salary: an employee's contribution towards the Canada Pension Plan (CPP), Employment Insurance (EI) premiums, and income tax.

What changes are coming in your 2021 paychecks?

Every year, Service Canada, the Canada Employment Insurance Commission (CEIC), and the CRA decide the rate of CPP, EI, and income tax, respectively. They also determine the earning bracket on which the rate will apply. For 2021:

- Service Canada has increased the CPP contribution rate to 5.45% (5.25% in 2020) and the maximum pensionable earnings to \$61,600 (\$58,700).
- The CEIC has [retained the EI premium rate](#) for employees at 1.58% but increased the maximum insurable earnings to \$56,300 (\$54,200).
- The CRA has increased the taxable income while retaining the tax rate. The maximum federal tax rate of 33% will apply on an income of over \$216,511 (\$214,368).

This increase in maximum earnings and rates will reduce your net amount you get after all deductions. To understand the implication of these deductions in dollar terms, I will take the example of Annie. She was earning \$62,000 in 2020, and as the pandemic affected the business, her employer didn't increase her salary. On a \$62,000 income, Annie will see the following changes in her paycheck 2021:

- Her [CPP deduction](#) will increase by \$268.5 to \$3,166;
- Her [EI deduction](#) will increase by \$33.18 to \$889.54; and
- Her income tax, before any tax deductions and tax credits, will reduce by \$26.7 to \$10,014.

The above three changes will reduce Annie's 2021 paycheck by \$275. While the government has increased the above payroll deductions, it has also increased the amount of tax breaks. For instance, the CRA has increased the basic personal amount tax credit by \$139 for 2021. Hence, higher tax breaks will mitigate the impact of higher deductions.

What should you do with your paycheck in 2021?

The new year brings new opportunities. Next year will see the beginning of the new decade. This decade will be led by the technology in 5G, cloud computing, electric cars, and digitization. If you are confused about which tech stock to buy, you can always consider technology ETFs.

iShares S&P/TSX Capped Information Technology Index ETF ([TSX:XIT](#)) gives you exposure to the top 19 tech stocks trading on the Toronto Stock Exchange. It gives you exposure to cybersecurity firms like **Absolute Software** and **BlackBerry** to e-commerce stocks like **Shopify** and **Lightspeed POS**. The ETF buys and holds these stocks, and you get exposure to the stock price movements.

For instance, Lightspeed stock was the best-performing stock, rising 105% in November and December. The XIT ETF rose 20% during the same period. While the ETF limits growth, it also mitigates the impact of decline. When Lightspeed stock fell 59% between mid-February and mid-March, the XIT ETF fell 29%, limiting the downside.

The last decade saw the rise of technology. The XIT ETF surged at a CAGR of 19.4% in the last 10 years. As technology stocks have the potential to see exponential growth, the ETF can help you participate in this growth while mitigating risks.

Investor centre

The CRA allows you to contribute \$6,000 in Tax-Free Savings Account in 2021 and enjoy tax-free investment returns. Even if the XIT ETF's CAGR slows to 13-15% in the coming decade, your \$6,000 will become \$20,000-\$24,000 by 2030.

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