



CRA: 2 Huge TFSA and CPP Changes in 2021

Description

The Canada Revenue Agency (CRA) is keen on keeping Canadians on their toes towards the end of each year by announcing significant updates. The government agency has recently announced two huge updates that concern the Tax-Free Savings Account (TFSA) and the Canada Pension Plan (CPP).

CPP update

The CPP is getting a slight overhaul with the 2021 update made by the CRA. The [CPP enhancement](#) will affect millions of employed and self-employed Canadians who contribute to the pension fund. Employers will also feel the effects of this CPP enhancement, because they must cover 50% of their employees' contributions to the fund.

The maximum pensionable earnings for 2021 will increase from \$58,700 to \$61,600 due to increased contribution rates. Effective starting January 2021, the employee and employer contribution rate will be up 5.45% from 5.25% in 2020. The self-employed contribution rate will increase from 10.5% to 10.9%.

The CRA uses a formula to calculate the maximum pensionable earnings ceiling. While it may mean a smaller paycheck in the short term, the CPP enhancement will lead to higher retirement income through the boosted CPP payouts. The basic exemption amount remains the same at \$3,500 to make it more convenient for Canadians with a lower income.

TFSA contribution room update

Another major change that the CRA is introducing in 2021 is a \$6,000 increase in the TFSA contribution room. With the 2021 update, the cumulative contribution room in your TFSA will change from \$69,500 to \$75,500. If you have been eligible to contribute to a TFSA since the account's inception in 2009 but have not contributed to the account, you can contribute \$75,500 to your TFSA.

Each year, the CRA sets a new TFSA contribution limit indexed to inflation and rounds it to the closest

\$500. TFSA users can max out their contribution room and use the account's tax-advantaged status to generate more tax-free money.

Generate tax-free passive income

If you have been maxing out your TFSA contribution room, you know how important it is to make the best use of the limit. You have more room to invest, and I would suggest using the contribution room to add shares of companies like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)).

Fortis is a Canadian Dividend Aristocrat that has a remarkable 47-year dividend-growth streak. It means that the Canadian utility company has been providing its shareholders with consistently increasing payouts for almost half a century. Its reliable track record of increasing dividends make Fortis an ideal investment to consider for the additional contribution room.

Almost all of the company's revenues come through high-quality, regulated utility assets that generate predictable and growing cash flows. Its resilient business and cash flows allow Fortis to continuously increase its payouts. Additionally, the company projects its rate base to increase by \$10 billion in the next five years. It means it can increase its payouts further.

Foolish takeaway

You can use the tax-free status of your TFSA to bolster your retirement income through the enhanced CPP. Using the contribution room in your TFSA to create a portfolio of [high-quality dividend stocks](#) can help you achieve a more comfortable retired life.

Fortis is a low-risk and reliable income-generating asset. It can continue to provide you with strong returns in the coming years. I think it could be a valuable addition to your TFSA to help you become a wealthy investor by the time you retire.

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