CRA: 3 Huge TFSA, RRSP, and CPP Changes in 2021

Description

The Canada Revenue Agency (CRA) has announced a few updates for 2021 that are extremely important for investors and taxpayers. The government agency just disclosed three updates with respect to the Tax-Free Savings Account (TFSA), Canada Pension Plan (CPP), and the Registered Retirement Savings Plan (RRSP).

CPP enhancement for 2021

The CPP enhancement will impact millions of employed and self-employed Canadians that contribute towards the pension fund. This will also impact businesses that need to cover 50% of employee contributions.

The CRA states the maximum pensionable earnings for 2021 will rise from $58,700 to $61,600 due to a rise in CPP contribution rates. In January 2021, the employee and employer contribution rate will increase to 5.45%, up from the current 2020 figure of 5.25%. This means the contribution rate for self-employed Canadians will increase to 10.9% from 10.5%.

The CPP enhancement might result in a smaller paycheck for Canadians, but it will also lead to higher income in retirement. The basic exemption amount for Canadians will remain at $3,500 for 2021.

The RRSP contribution limit for 2021

The CRA announced the RRSP contribution limit for 2021 last month. According to the CRA, you can contribute up to $27,830 towards your RRSP compared to the maximum contribution limit of $27,230 in 2020.

Canadians can contribute up to 18% of their income or the maximum contribution limit towards the RRSP. This means Canadians with an annual income of $154,611 will have a maximum contribution room ($154,611 *18%) of $27,830 towards the RRSP.

The RRSP is a tax-sheltered account and any contribution towards the registered account is tax-deductible.

The TFSA contribution limit is $6,000 for 2021

Another major change announced by the CRA is the $6,000 increase in the TFSA for 2021. This means the maximum cumulative contribution room will increase to $75,500, up from $69,500 in 2020.

Every year, the TFSA contribution room is indexed to inflation, and the CRA rounds it to the closest $500. While any contributions towards the TFSA are not tax deductible, any withdrawals in the form of dividends, capital gains, and interests are exempt from CRA taxes.

Generate tax-free income by investing in Enbridge

Due to tax-free gains, investors can look to hold Canadian dividend giants such as **Enbridge** (TSX:ENB)(NYSE:ENB) in their TFSA. Enbridge is a midstream energy giant and one of the largest Canadian companies.

It generates a significant portion of revenue from its pipelines that transport about 25% of the crude oil and 20% of the natural gas used in North America. Its utility business serves around 3.7 million Canadian customers mainly in Quebec and Ontario.

While Enbridge is debt heavy, the company has managed to generate steady cash flows, even during the pandemic, indicating its business is resilient across economic cycles. Enbridge stock is still trading 26% below its 52-week high, and it has a tasty forward yield of 8.1% with a payout ratio of less than 70%.

Enbridge has increased its dividends at an annual rate of 11% since 1995 and is a safe Dividend Aristocrat given the company's diversified base of cash-generating assets. If you allocate $6,000 in your TFSA and buy Enbridge stock, you can generate close to $500 in annual dividend income.

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