CRA 2021 Update: 2 Need-to-Know Tax Changes

Description

Key tax changes will take effect in 2021, and two of them are welcome news to taxpayers. The Canada Revenue Agency (CRA) has been making announcements in recent weeks so people would know what to expect in the New Year.

On November 20, 2020, the CRA officially released the new Tax-Free Savings Account (TFSA) annual contribution limit for 2021. On December 15, 2020, the tax agency posted several employment-related matters on its website. Among the salient ones is the work-from-home tax deduction.

1. New TFSA limit

TFSA users are cheering every time the CRA comes out with the annual contribution limit in November. The much-loved investment account has been with Canadians since 2009. Many turn to the TFSA for their savings and investment goals.

People are also using this unique savings account for tax planning purposes. For 2021, the annual contribution limit will remain $6,000 or the same as in 2019 and 2020. Users who have maxed out their limits this year can resume their investing activities to earn tax-free income anew.

If you haven't opened a TFSA but is eligible since 2009, the accumulated contribution room will be $75,500. All earnings, interest or gains from your contributions are 100% tax-free. The CRA will not impose a penalty tax on withdrawals too.

2. Work-from-home tax deduction

Because of the pandemic and to minimize its spread, employees or workers are working from home. Employees could claim home office expenses in the next tax season if they worked from home in 2020 due to COVID-19. To be eligible, you should have spent more than 50% of the time from home. The periods should be at least four consecutive weeks.

Claimants can use the temporary flat rate method to claim the deduction. Under this method, individuals can claim $2 per day for each day worked at home, not exceeding $400 (about 200 days). If you're doing a detailed calculation, obtain the shortened pandemic version of the standard T220 form (Form T2200S) from your employer. The first option doesn't require a T220 form.

Magic of compounding

TFSA balances grow or compound faster because money growth is tax-free. You also don't lose an unused contribution room for the year since it carries over to the next. The upside is when you max out your limit every year. However, the downside is hoarding cash and not using some to invest in income-producing assets.

Most TFSA users own shares of **Enbridge** (TSX:ENB)(NYSE:ENB). If you want the ultimate dividend-payer, this top-tier energy stock is the one. The $83.54 billion energy infrastructure company pays a mouth-watering 8.1% dividend. Your $6,000 or $75,500 investment will produce $486 or $6,115.50 in passive income. Please don't mistake this midstream giant for a risky oil producer because it's not.

Enbridge derives the bulk of its revenue from its pipelines. About 25% of crude oil produced in North America pass through the company's vast pipeline network. Similarly, Enbridge transports 20% of America's natural gas requirements. The energy stock has been paying dividends for over 60 years. With its fantastic yield, you'll see the magic of compounding in your TFSA.

Reduce your tax bill

In 2021, maximize your TFSA contribution limit and don't forget to claim the simplified work-from-home tax deduction if eligible. You can significantly reduce your tax payables.

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
2020/12/31
Author
cliew