



CRA Update 2021: The RRSP Limit Is Increasing. Save More on Taxes!

Description

Canadian citizens planning ahead for their golden years might have seen their retirement plans thrown sideways due to the COVID-19 pandemic. Retirement planning is crucial to secure a comfortable future for yourself.

Binder Dijker Otte Canada (BDO) surveyed over 2,000 Canadians in September 2019 to find that just half had little disposable income. The rest of the people it surveyed were [consumed with overwhelming debt](#). It also found that almost 40% of Gen-X had no retirement savings. Canadian retirement was already under challenging circumstances before the pandemic struck.

Another worrying discovery from the survey was that almost half of them believe that they cannot afford to save for life after retirement. Fortunately, the Canada Revenue Agency (CRA) is hard at work to make adjustments to the Registered Retirement Savings Plan (RRSP) to help Canadians with their retirement plans.

The CRA is making a major RRSP update in 2021 that I will discuss with you. I will also talk about how you can use this to save more on taxes using the RRSP update to create a more fulfilling retirement nest egg.

RRSP changes for 2021

The CRA announced changes to the Canada Pension Plan (CPP) and RRSP in November 2020. It announced that the RRSP limit will increase from \$27,230 in 2020 to \$27,830 in 2021. The \$600 contribution limit increase to your RRSP can give you more room to maneuver with your investments.

On its own, \$600 in cash might not seem like much. However, using the additional contribution room to invest in dividend stocks can help you turn that into a much more significant amount.

Leverage the RRSP updates with dividend stocks

RRSP users should ideally seek income-generating assets that they can invest in and store in their RRSPs. These assets should offer good value, substantial income, and have dividends that can stand the test of time. **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) could be an ideal stock that qualifies for all three requirements.

BMO is one of Canada's most important financial institutions. It has a strong presence in both Canada and the United States. When you consider stability, BMO is arguably one of the best equity securities you can get. The bank has Canada's longest active dividend-paying streak. BMO has paid its shareholders their dividends each year since 1829.

Considering the unprecedented financial challenges the world has faced during that time, BMO's rock-solid dividends are a testament to its reliability. There may be bumps along the way, but you can rely on BMO to continue paying you reliable dividends. The stock is a staple investment for many retirement portfolios due to its long-term stability and reliability.

Foolish takeaway

Your RRSP is an excellent tool for you to save on taxes. RRSP contributions each year can reduce your taxable income amount for the income year. With the 2021 RRSP update, you can increase your tax savings and use the additional contribution room to generate an increasing passive income that adds to your retirement nest egg.

Allocating the contribution room to [reliable income-generating assets](#) to hold long term is the ideal way to go. BMO could be an excellent stock to consider for this purpose.

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