Canada Revenue Agency: Know Your Paycheck Deductions for 2021

Description

The new year brings new hope and, hopefully, more jobs. Whether or not you will get a raise in your income depends on your employer. I will discuss the deduction side of your paycheck. The Canada Revenue Agency (CRA) requires your employer to deduct three things from your paycheck every month:

- Canada Pension Plan (CPP)
- Employment Insurance (EI) premium
- Income tax

Your 2021 paycheck deductions

Every year, the respective government agencies decide the deduction rate and the maximum deduction amount. They calculate this amount after adjusting for inflation. For 2021:

- The CPP contribution rate is 5.45%, and the maximum pensionable earnings are $61,600. This means your employer can deduct up to $3,166 per year, or $264 per month.
- The EI premium rate for employees is 1.58%, and the maximum insurable earnings are $56,300. This means your employer can deduct up to $889.5 per year, or $74 per month.
- The CRA has revised the tax brackets under which the minimum federal tax rate of 15% is applicable on the first $49,020. This grows to 33% for income above $216,511. There are also changes in the provincial tax rate.

2021 taxable? income	**Tax rate**
?$1 to $49,020	?15%

Over $49,020 to $98,040	?20.5%
Over ??$98,040 to $151,978	?26%
Over $151,978 to $216,511	?29%
?Over $216,511	33%?

I will explain the above paycheck deductions with an example. Juliet is a graphic designer in Ontario and has an annual taxable income of $62,000 in 2021. Every month, her employer will deduct $264 in CPP contribution, $74 in the EI premium, and applicable income tax. You can opt to stop your CPP deductions under special circumstances.

How can you reduce your income tax?

Even if your income remains unchanged, you can benefit from higher tax deductions and tax credits. Just like the paycheck deductions, the CRA also increases the tax credits after adjusting for inflation. It has increased the basic personal amount to $13,808 for 2021 from $13,229 for 2020. The CRA has also introduced new tax credits, like the digital news subscription tax credit and Canada training credit.

Moreover, higher CPP and EI contributions will reduce your taxable income. All these tax credits will help you lower your tax bill. This way, the CRA will compensate for higher paycheck deductions with higher tax savings.

Apart from leveraging CRA's various tax breaks, you can also make use of tax advantage accounts like the Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP).

Increase your paycheck amount in a tax-efficient manner

Like the CRA increases the paycheck deductions according to inflation, you can increase your income by investing in good dividend stocks through a TFSA. The CRA doesn't tax the investment income and withdrawals on TFSA. But it does deduct tax on your contribution. In 2021, you can contribute $6,000 to your TFSA.

One stock that can give you inflation-adjusted returns is **Enbridge** (TSX:ENB)(NYSE:ENB).
The pipeline operator increases the toll rate on the transmission of oil and natural gas. Moreover, it keeps building new pipelines, gas storage facilities, and wind farms. These projects are capital intensive, which makes them risky until they are completed.

Many times, some projects get delayed due to environmental and litigation concerns. This increases the project cost. But once the project comes online, it gives significant cash flows for the long term. Being the largest pipeline operator in North America, Enbridge has an edge over other pipeline operators. It is in a state where most of its projects have already earned back the invested capital. These projects are now generating sufficient cash flow to enable the company to regularly increase the dividend per share and also fund its operations.

Even during the pandemic, when Enbridge took a hit from reduced oil supply, it increased its 2021 dividend per share by 3%, as oil demand started recovering, it increased the transmission fees and is on track to bring new pipelines online. For the last 25 years, it has increased its dividends at a CAGR of 11%, enabling its shareholders to earn inflation-adjusted income. This trend will continue in the coming years.

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