Canada Revenue Agency: Prepare to Do Your 2020 Taxes as Early as February 22

Description

You might be thinking that you just finished doing taxes in September 2020, and the tax season has returned in fewer than six months. Last year, the Canada Revenue Agency (CRA) extended the tax-filing deadline from April 30 to September 30, 2020, in the light of the pandemic. The CRA has made it clear that this year, there won't be any extensions to the tax deadline.

Prepare to do your 2020 taxes

The CRA has also created a page, "Doing Your Taxes," giving a step-by-step guideline on filing tax returns. The last date to file and pay your 2020 income tax is April 30, but the CRA has urged people to file their returns as early as February 22.

This year, there will be some changes in the 2020 income tax filing. Unlike in other years, many Canadians got emergency and recovery cash benefits. If you lost your job because of the pandemic and have been collecting the $2,000/month Canada Emergency Response Benefit (CERB) and Canada Recovery Benefit (CRB), benefits alone will add up to $19,400. When calculating your 2020 taxable income, you will have to add the amount of the benefits.

Many people invested some of the benefits in the stock market and earned investment income. If you did so using a Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP), then you need not worry. Otherwise, you will also have to add the investment income to your 2020 taxable income.

For instance, Janet earned $5,000 per month before the pandemic. But she lost her job and has been getting the CRA cash benefits since mid-March. While getting the CRA benefits, she did some freelance work and earned around $1,000 from it every month. Her 2020 taxable income will add up to income from salary ($10,000) + benefits amount ($19,400) + income from freelance work ($10,000). All this adds up to $38,400.

Tax deductions in 2020

The CRA also gives many tax breaks like the basic personal amount tax credit and age amount tax credit. It introduced two new tax credits in 2020: the digital news subscription tax credit and Canadian Training credit. But it is too late to avail of the digital news subscription tax credit now, as it required you to spend on qualified subscriptions and courses before December 31, 2020.

However, there is one new tax deduction you can use. As many Canadians worked from home for more than 50% of the time, the CRA introduced a new temporary flat rate home office expense deduction. Under this, you can deduct up to $400 from your taxable income. You need to fill the Form T777S.

There are many such deductions that you can use. Keep an eye on my tax-planning series, where I will take up one deduction at a time.

Invest in an RRSP

After deducting all tax breaks, you will have a fair idea of what your tax bill will be. The CRA allows you to contribute 18% of your earnings or $27,230, whichever is lower, in an RRSP. You can deduct your RRSP contribution made till March 1 from your 2020 taxable income and reduce your tax bill.

But remember, once the money goes into your RRSP, early withdrawals are subject to a penalty of 10-30% and are also added to your taxable income. Hence, only invest that much money in your RRSP that you don’t need before you turn 71.

If you are investing in a RRSP, **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP) is a good option. The company has one of the largest and most diverse infrastructure portfolios. It has properties in healthcare, office, utilities, data centre, transportation, energy, and communications industries. These sectors are resilient to economic crises. The coming decade will see the 5G revolution and data centre boom, driving BIP’s revenue from the data centre and communications sectors.

BIP stock has more than doubled in five years. It also has a history of paying regular dividends for over 10 years. The company’s portfolio will increase its future cash flows and enable it to pay incremental dividends in the coming decade, making it a good long-term buy.

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