



CRA: How Will the 2021 Changes in CPP and TFSA Impact You?

Description

Every year, the Canada Revenue Agency (CRA) makes changes to the tax breaks and deductions. This process is called indexation, where it adjusts the maximum deduction amount for inflation. I will discuss the changes the CRA made to the Canada Pension Plan (CPP) and the Tax-Free Savings Account (TFSA) in 2021.

The CPP changes in 2021

The CRA created the CPP as a mandatory deduction for employed and self-employed people to help Canadians save for retirement. Hence, your employer deducts a certain contribution rate from your taxable income and credits the net amount after the CPP and other mandatory deductions. However, you can opt out of the CPP under special circumstances.

Before January 2019, the base CPP contribution rate was 4.95% for employed and 9.9% for self-employed people. This rate difference is because the employee and the employer both make equal contributions for the employed, whereas the self-employed make contributions for both. In 2019, the CRA started [the CPP enhancement](#) program, under which it increases CPP contribution every year to give a higher pension on retirement.

For 2021, the CRA has increased the CPP contribution rate to 5.45% from 5.25% in 2020. It has also increased the maximum pensionable earnings to \$61,600 from \$58,700 in 2020. However, it has maintained the minimum pensionable earnings exempt from CPP at \$3,500. How will this impact your 2021 paycheck?

- For instance, Jacob's taxable salary is \$50,000 in both 2020 and 2021. His pensionable earnings will be \$46,500 (\$50,000-\$3,500). His 2021 CPP deduction will increase by \$93 from \$2,441 to \$2,534 (5.45% of \$46,500).
- Let's take another scenario where Martha's taxable salary increased from \$57,000 to \$62,000 in 2021. In this case, her 2021 CPP deduction will increase by \$358 from \$2,809 to \$3,166 (5.45% of \$58,100).

The TFSA changes in 2021

The CRA created the TFSA in 2009 to encourage Canadians to save. The CRA doesn't give any tax benefit on your contribution but exempts any investment income you earn in TFSA from taxes. It sets an annual contribution limit every year, which keeps accumulating if you don't max out your contribution. For 2021, the CRA has retained the maximum TFSA contribution limit at \$6,000. If you were above 18 years of age in 2009 and have never contributed to the TFSA, you can contribute up to \$75,500.

A stock market crash in 2021 will present good opportunities to buy quality stocks at an attractive value. That is when you can leverage your TFSA contribution limit.

How to benefit from the CRA changes in 2021

There is a lot of speculation around a [stock market crash](#) in 2021, as the government phases out the fiscal stimulus package that drove the 2020 stock market rally. Another market crash will pull down the price of high-growth stocks like **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)). The stock is currently trading at a record-high valuation of 64 times its sales per share. The company has immense growth potential, but the high stock price has limited the stock's upside.

Lightspeed provides retailers, restaurants, and golf clubs with omnichannel solutions that enable them to manage multiple locations. They can manage purchases, inventory, order booking, and marketing on the Lightspeed platform. Before the pandemic, it was a nice-to-have technology. After the pandemic, it has become a must-have technology, as it helps companies operate stores while maintaining social distancing.

In the March 2020 market crash, Lightspeed stock fell 67.5% to \$12. Those who purchased the stock close to the dip below \$20 price have earned a 330% return. A \$3,000 TFSA investment in Lightspeed in April is now \$12,900, making your \$9,900 investment income tax-free.

Investor takeaway

Don't buy Lightspeed stock at the \$86 price, as the stock will correct in 2021 after the pandemic-induced growth fades. In 2020, the company's revenue growth accelerated to above 60% on the back of acquisitions and the pandemic. As its revenue growth normalizes to 50%, so will the stock price. Add the stock to your watch list and buy it when it dips below \$60. This way, you can enhance your TSFA investment income from Lightspeed.

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