CRA: 3 Ways You'll Pay More Taxes in 2021

Description

The Canada Revenue Agency (CRA) pulled out all the stops to support the economy last year. Canadians received thousands of dollars in benefits that effectively reduced the economic burden of the crisis.

However, now that the crisis is being resolved and the government has a tremendous debt load to tackle, Canadians may face higher taxes. Here are three ways we could pay more money to the CRA in 2021 and beyond.

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CRA CPP contribution

The CRA has already declared tax hikes on Canada Pension Plan (CPP) payments. In fact, the rate you pay into the collective pension pot will increase every year until 2023. This year, your CPP pensionable earnings will increase from $58,700 to $61,600.

When you account for all the CPP hikes over the next four years, the total hike is 16.7%. That's a hefty amount of your paycheck committed to the CRA.

Property taxes

This tax hike is regional. Depending on where you live, your city or province may hike the property taxes you pay on your property. In Toronto, for instance, experts believe the property tax rate will have to increase 47% to cover the budget deficit. The city council will declare a final figure next month, but it's likely to be steep.

A similar pattern could play out across the country. This impacts you if you own property, but could also mean higher rents to cover the added expense for landlords.

Potential GST hike

The CRA has proposed a new Goods and Sales Tax (GST) on digital commerce, which means you could potentially be paying more to shop online or buy software starting July, 2021.

CRA is still seeking comments on this proposal. So we don't know exactly how much this will impact ordinary Canadians. What we know for sure is it's a hike to consumption taxes.

The only CRA tax you can reduce

CPP contributions, property taxes and GST are beyond your control. If the CRA hike them, you have to pay. The only taxes you could potentially reduce are on investments. Investing through a tax-free savings account (TFSA) could reduce your capital gains and dividends.

If your investment performance is good enough, you could offset all the tax hikes the CRA throws at you this year.

You don't even need to focus on high-growth tech stocks. A robust dividend stock like **Fortis Inc** (TSX:FTS)(NYSE:FTS) could help you boost performance. In fact, my Fool colleague Amy Legate-Wolfe believes this stock could help you turn a $6,000 TFSA contribution into $1.3 million.

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That calculator is based on Fortis stock's incredible dividend and sturdy price performance. The stock avoided the crash in 2020 and has retained its value throughout. It now offers a 3.9% dividend. After 46 years of annual dividend hikes, it seems likely that Fortis will hike this dividend in 2021 as well.

Adding Fortis stock to your TFSA could help you offset many of the CRA's tax hikes over the next few years.

Bottom line

The CRA is hiking taxes over the next few years. Offset these with an investment in Fortis stock.

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