



Hooray! This New CRA Adjustment Means Lower Taxes in 2021

Description

People generally hate taxes, so any form of [tax relief](#) matters. In Canada, the federal government is fully aware of this sentiment that it proposed legislation on December 9, 2019, to increase the maximum basic personal amount (BPA) for 2020 and the succeeding three years.

The BPA is a non-refundable tax credit that taxpayers can claim to receive full relief from federal income tax. Also, the BPA represents the primary value of income a taxpayer can earn and not pay taxes. The maximum BPA amount in the tax year 2021 is now \$13,808, an increase of \$579 from 2020.

More money in the hands of taxpayers

According to legislation proponents, increasing the BPA has better advantages than raising the minimum wage. While a higher minimum wage raises the standard of living and helps stimulate the economy, it would increase labour costs. Employers that can't afford to pay higher salaries might lay off workers.

Increasing the BPA amount will also help stimulate economy but will not impact labour costs and businesses' profit margins. Based on the *Income Tax Act*, the BPA enhancements phase-in began in 2020, and the maximum amount would be \$15,000 by 2023.

Gradual reduction of BPA increase

Statistics Canada reports that the Canada Revenue Agency (CRA) indexes certain personal income tax and benefit amounts to inflation every year using the Consumer Price Index. Similarly, there are tax bracket thresholds whereby the additional BPA amount gradually reduces when income exceeds a particular income tax bracket.

For 2021, the \$579 is reduced if income is over \$151,978 (29% tax bracket) but below \$216,511. However, the additional is zero if income reaches \$216,511 or the 33% tax bracket. Thus, if your net income this year is greater than or equal to \$216,511, the maximum BPA amount is \$12,421, not

\$13,808.

Next year, expect the tax bracket threshold relating to non-refundable credits to increase again. Such increases in BPA and other benefit amounts take effect on January 1 of the applicable year.

Bank stock of choice

Millions of Canadian taxpayers will again derive federal tax savings for the tax year 2021 with the higher maximum BPA amount. The \$13,808 is a significant amount, and if you have free cash of the same amount, [make the money work for yourself and earn](#). A straightforward strategy is to invest in dividend stocks.

Many say that bank stocks are the best to own for recurring, if not endless, income stream. In 2021, the **National Bank of Canada** ([TSX:NA](#)) should be the top pick. While this \$24.55 billion bank (sixth largest) is not part of the elite Big Five banks, it beat its industry peers in earnings-per-share (EPS) growth.

From full-year 2015 to 2020, National Bank's EPS growth was 5.21%. Canada's largest bank, the **Royal Bank of Canada**, had 3.26% only. The dividend growth rate from full-year 2011 to 2020 was mighty impressive too at 8.6%, second to **Toronto Dominion Bank's** 9.8%. For would-be investors, this bank stock trades at \$73.06 per share and pays a decent 3.89% dividend.

Tax season is fast approaching

The COVID-19 is still raging in 2021, although Canada has started vaccination since December 2020. Meanwhile, several emergency measures and benefit programs are ongoing and available to affected Canadians. With the tax season coming, taxpayers can claim the non-refundable BPA to lessen tax payables.

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