



Hate Taxes? Then You'll Love This New CRA Tax Change!

Description

Canadian taxpayers should be preparing their tax returns for the income year 2020. The Canada Revenue Agency (CRA) has not announced an extension, so tax-filing and tax-payment deadlines should be on April 30, 2021. Most taxpayers will enjoy a tax cut of \$931 due to a higher basic personal amount (BPA).

For the income year 2021, taxpayers will love [the new CRA tax change](#). As mandated by the Income Tax Act, the maximum BPA amount increases starting in 2020 until 2023. All individual taxpayers can claim the BPA, which is a non-refundable tax credit. Its purpose is to provide a full reduction from federal income tax.

Four-year phase-in

The Income Tax Act in Canada was amended to include the increases in the maximum BPA amount for four years (2020 to 2023). The BPA increased from \$12,298 in 2019 to \$13,229 in 2020. If your net income in 2020 is \$150,473, or less, you get the [maximum BPA amount](#).

However, the amount reduces if your net income is between \$150,473 and \$214,368. Should your net income exceed the 33% tax bracket, or \$214,368, the maximum BPA amount will not increase and remains at \$12,298. Note that if the total non-refundable tax credits are more than your tax payables, the CRA will not refund the difference.

Tax savings in 2021

The BPA will bump up by \$579 in 2021 such that an individual taxpayer can earn up to \$13,808 before paying any federal income tax. The maximum BPA amount will increase again by \$590 to \$14,398 in 2022 and then by \$602 to \$15,000 in 2023. The CRA will follow the income tax thresholds in determining the maximum BPA amount per individual taxpayer.

If your net income in 2021 is above or equal to \$216,511 (33% income tax bracket), the maximum BPA

amount you can claim is \$12,421. After 2023, the CRA will index the \$15,000 for inflation for the succeeding years. The tax agency expects approximately 20 million taxpayers to benefit from lower taxes due to the increasing BPA amounts.

Tax-free earnings

Don't belittle the BPA amount of \$13,808, as it's sufficient seed capital to invest in dividend stocks. In a Tax-Free Savings Account (TFSA), you have the opportunity to earn tax-free income. Assuming your carryover or unused TFSA contribution in 2020 is \$7,000, your available room becomes \$13,000 when including the \$6,000 limit in 2021.

I wouldn't hesitate to invest in telecom giant **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) if I had the same amount in free cash. Canada's largest telecommunications company pays a fantastic 6.03% dividend. The potential tax-free income on a \$13,000 investment is \$783.90.

BCE is the best income stock today because of its industry-leading broadband communications services. The \$49.67 billion company also boasts of the largest network of data centres and retail outlets in the country. Revenue should be robust, and cash flow should be stronger with the 5G network. Expect the company to lead the next wave of innovation in the telco space.

Welcome tax change

Besides the critical income support to displaced Canadian workers, the CRA is implementing several changes in 2021. However, the new maximum BPA amount should be among the well-received tax change. Taxpayers can look forward to more tax savings in the next two years.

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