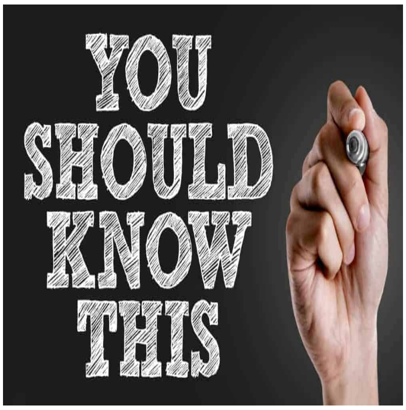

CRA Changes: 2 Big Updates to Your 2021 Paychecks

Description

COVID-19 had a tremendous impact on Canadian families not only physically and mentally but also financially. As the country grapples with the fallout from the health crisis, there's guarded optimism that this year will be better than 2020. For working and employed Canadians, the Canada Revenue Agency (CRA) has significant updates, particularly on paychecks.

Two of the important changes concern the Canada Pension Plan (CPP) pension and the basic personal amount (BPA). Both are beneficial because the first will increase the retirement benefits, while the second would put more money in the workforce's pockets.

CPP contribution rate

The employee and employer contribution rate will increase for the third time in three years. As a result of higher contribution rates in 2021 (from 5.25% to 5.45%), the annual salary deduction per employee will be $3,166.45 instead of $2,898. An employer will match the contribution, while self-employed individuals will contribute double or $6,332.90 (10.9% contribution rate).

CPP users should welcome the pension enhancements notwithstanding the salary cut. Higher contributions will translate to higher CPP payouts upon retirement. The annual maximum and average CPP payouts in 2021 are $14,445 and $8,270.04. In 2020, the respective amounts were $14,109.96 and $8,149.92.

Most CPP pensioners receive only the average annual pension. If you want to obtain higher benefits, a less-expensive approach is to delay the CPP payments until 70. The deferral option effectively increases the payout by 42%. Thus, instead of $689.17, the monthly payment would be $978.62.

Increase in tax-free BPA

In prior years 2019 and 2020, the federal BPA was $12,298 and $13,229. For 2021, the amount will increase to $13,808. If you're a Canadian taxpayer, you can earn up to the new BPA before paying any federal income tax. However, you must be aware of the tax bracket thresholds.

Your income in 2021 must be below $151,978 (29% tax bracket) to claim the full $13,808 non-refundable tax credit. The BPA will reduce if your income is between the 29% and 33% tax bracket ($216,511). However, the maximum for anyone who exceeds $216,511 is only $12,421. The CRA will further increase the BPA in the next two years. By 2022, the BPA will be $15,000.

Boost active income

Earning passive income is a way of life now for many Canadians. It's a fundamental necessity now, given the threat of a long-drawn recession. There are many ways to make money on the side to augment active or regular income. However, you can generate recurring revenue with the least effort through dividend investing.

National Bank of Canada (TSX:NA) is an excellent source of passive income. This bank stock trades at $73.22 per share (+2.2% year to date) and pays a 3.88% dividend. Canada's sixth-largest bank leads the banking sector in terms of earnings-per-share (EPS) growth (5.21% from full-year 2015 to 2020). It has been growing dividend at an 8.6% clip since 2011.

You can maximize your $6,000 Tax-Free Savings Account annual contribution limit to earn $232.80 in tax-free income. The dividends should be safe, as National Bank keeps the payout ratio in check by limiting the payouts to less than 50% of earnings.

Win-win situation

The increasing CPP contribution rate and BPA is a win-win situation for Canadians. Your pension payout and tax savings will grow together in 2021 and subsequent years.

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