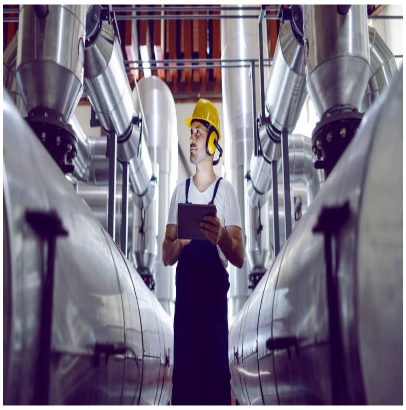

CRA: 3 Huge Changes Coming in Your Paycheck in 2021

Description

Last year, many Canadians lost their jobs, while several others took pay cuts as the pandemic brought the world economy to a standstill. As we move past the pandemic year, your increment might also be sloppy. While your employer might decide about your income, the Canada Revenue Agency (CRA) has made a few changes to your paycheck deductions for 2021.

The CRA has made changes to three deductions - income tax, Employment Insurance (EI) premiums, and your contribution toward the Canada Pension Plan (CPP). Here I will discuss what these deductions are and how these changes will impact your paycheck.

What are the changes in paycheck deductions?

The Canada Pension Plan: The CPP program aims to make you save for your retirement from the day you start working. For 2021, Service Canada raised the employee 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 for 2020.

Employment Insurance premiums: The government deducts EI premiums from your salary to collect money to support you when you are unemployed. For 2021, the Canada Employment Insurance Commission (CEIC) has not changed employee's EI premium rate due to the pandemic. It continues to be 1.58%. However, the CEIC increased the maximum insurable earnings to $56,300 from $54,200 in 2020.

Income Tax: For 2021, the CRA increased the bracket of taxable income but has retained the tax rates. The lowest federal tax rate of 15% will apply to an income of up to $49,020. The highest rate of 33% will apply on an income of more than $216,511. These figures were $48,535 and $214,368, respectively, for 2020.

How will these changes impact your paycheck?

The increase in rates and the amount of maximum insurable earnings will bring down your net salary after deductions. Let me explain the calculations with the help of an example. Sarah earned $63,000 in 2020, and her employer did not give her an increment in 2021 due to the pandemic. Her employer made the following deductions from her paycheck in 2020:

- $2,898 toward CPP ($55,200 x 5.25%)
- $856.4 toward EI premium ($54,200 x 1.58%)
- and income tax as per her deductions.

Now, for 2021, the rate and the amount of maximum insurable earnings have changed for these three deductions. Hence, there will also be changes to the amount deducted from Sarah's salary, despite her salary remaining the same.

- $3,166 toward CPP ($58,100 x 5.45%)
- $889.5 toward EI premium ($56,300 x 1.58%)
- and income tax as per her deductions.

The changes in paycheck deductions will reduce Sarah's annual net salary for 2021 by around $300.

How should you increase your earnings in 2021?

The pandemic has highlighted the importance of having more than one source of income. An alternate source of income will help you survive a year of no increment and higher paycheck deductions. Dividend stocks are a good way to earn alternative income through your Tax-Free Savings Account (TFSA). The CRA exempts your TFSA withdrawals from taxes.

Enbridge (TSX:ENB)(NYSE:ENB) is one must-have dividend stock in your TFSA portfolio. It increased its dividends even during the pandemic when other stocks stopped paying or slashed dividends. The company has the largest oil and natural gas pipeline infrastructure in North America. The stock declined 35% in March 2020 as many countries announced nationwide lockdowns that reduced air and road travel. However, the economy gradually reopened, and vehicles hit the roads again. While Air travel was slightly better than the April-June 2020 lockdown, it was far below 2019 levels.

Enbridge's shares surged 20% from its pandemic low as oil demand surged. But it is still below the pre-pandemic level because of weakness in jet fuel demand. The stock could grow further as jet fuel demand surges. Enbridge stock could also see a boost if the company reports recovery in its fourth-quarter results due to release in mid-February.

In the third quarter, Enbridge paid a dividend of $1.6 billion to its common shareholders. It has a dividend yield of 7.5% and has increased its dividend for 25 years now, a rare feat. If you are a long-term player, you can consider investing in Enbridge stock, which is trading at a 20% discount from the pre-pandemic level.

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Date
2025/09/15
Date Created
2021/01/21
Author
pujatayal