Uh-Oh! The CRA Plans to Increase Your Federal Taxes

Description

The Canada Revenue Agency (CRA) collects several taxes from Canadians. The government agency had its hands full during 2020 because of the pandemic. The agency found itself responsible for distributing government stimulus checks through the Canada Emergency Response Benefit (CERB) and its alternatives.

Canada's massive effort to pump stimulus into the economy resulted in a substantial deficit for the country. Canada's federal government is facing an $81 billion deficit so far due to its efforts to provide relief amid the pandemic.

With such a significant sum to counteract, it is natural for everyone to be concerned about the possibility of increasing taxes.

A pledge to not raise taxes

Prime Minister Justin Trudeau pledged that his government will not raise taxes on Canadians — at least not for now. Trudeau said that as soon as the country starts seeing economic growth, rising taxes will not be something for Canadians to worry about.

Trudeau is certain that the government will not increase taxes. He was reported as saying, "We will not impose more on Canadians. We know that we must restart the economy. It's not time to take away from people; it's time to still offer opportunities for people to go through this [crisis] and rebuild the economy stronger for the years to come."

A concerning economic statement

Despite the Prime Minister pledging that the government will not raise taxes, the Liberal government's Fall Economic Statement tabled in the House of Commons on November 20, 2020, contained several revenue-raising tax measures.

One of the measures was a proposal to cap the annual limit on some employees' stock option grants at $200,000 that can qualify for a preferential tax rate. This measure could increase government revenue by $200 million. Additionally, there is a plan to force foreign-based companies that sell digital services to collect and remind the GST/HST on their products. The several proposed measures could bring in over $1.5 billion in tax revenues in the next five years.

However, there is no news on federal tax increases so far in the year.

Increasing your tax-free income

Whether or not the tax increase takes place depends on the economic outlook. If the economy recovers, it might be nothing more than a little scare. However, there are chances that we will see another market crash. We could see the government feel forced to enact tax increases if a market crash happens in 2021.

The CRA collects taxes based on your income bracket. The government agency accounts for all of your taxable income to calculate how much it should collect from your income as income tax. Your taxable income can include your active income through employment and returns you get from your investments. Fortunately, there is a way you can use your investments to earn money that the CRA cannot touch.

Investing in reliable dividend-paying stocks like **Fortis** (TSX:FTS)(NYSE:FTS) and storing the shares in your Tax-Free Savings Account (TFSA) could help you generate tax-free income that can possibly reduce your taxable income. Earnings from any assets within your TFSA can grow without incurring income taxes.

Fortis could be an excellent stock to add to your TFSA portfolio for earning tax-free income. The utility company is a Canadian Dividend Aristocrat that has been growing its dividend payouts for almost 50 years. It means that the company has not just been paying its shareholders their dividends — the company also keeps increasing the payouts each year.

The company is one of the most massive utility companies in Canada. It has a consumer base in Canada, the U.S., and the Caribbean. With assets of over $56 billion and more than 3.3 million customers, the company is a much safer investment than most of its peers.

With most of its income coming from highly regulated and long-term contracts, Fortis generates predictable cash flows that it can use to finance its generous payouts.

Foolish takeaway

It remains to be seen whether the CRA will increase your federal taxes. However, focusing on creating tax-free income streams through your TFSA can help you grow your wealth in the long run without increasing your taxable income. Fortis could be an excellent stock to consider as the foundation of such a portfolio.

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