Alert: CPP Will Increase Dramatically in 2021 and Beyond

Description

The Canada Pension Plan (CPP) is one of the most robust retirement savings systems in the world. It's well-funded and appropriately invested to secure millions of Canadians' retirement. However, to sustain the program, the government may have to hike contributions to the CPP over the next few years.

As a Canadian taxpayer and investor, here's what you need to know about your potential future CPP contributions.

CPP contributions

There are two ways the government is expanding CPP: pensionable earnings and total contributions. This year, the average Canadian will pay CPP premiums on earnings up to $61,600. Last year, it was up to $58,700. That means the amount of your income that is taxed under this program has increased.

Meanwhile, the rate is increasing, too. Between 2019 and 2023, CPP premiums are set to gradually rise every year for a total 16.7% increase over time. Effectively, every Canadian should expect to pay more of their income to the pension pot over the next few years.

Offset higher taxes

There's not much you can do to reduce your CPP liability. In fact, most Canadians can barely reduce any income taxes at all. However, you can mitigate your tax burden by investing through tax-protected schemes.

The Tax-Free Savings Account (TFSA), for instance, can shield any income you have in the form of capital gains and dividends. If you maximize this program to its full potential, you could reduce your total tax bill considerably.

Consider the fact that your total TFSA contribution room could be as much as $75,500. Investing that amount in a dividend stock like **RioCan REIT** (TSX:REI.UN) could deliver $4,114 in dividends every year. That's the equivalent of an extra month of salary for most Canadians!

RioCan could also deliver capital appreciation over time. At the moment, the stock is trading at a 30% discount to book value. It's down 36% from last year, mainly due to the pandemic. However, as the economy reopens and people head to malls and restaurants, RioCan's rents and property values could rebound.

Combining RioCan's 5.45% dividend yield with the potential for massive capital gains over the next few years could deliver stunning total returns. For some Canadians, these returns could offset their regular income taxes if held in a TFSA.

Of course, you could also invest through the Registered Retirement Savings Plan (RRSP) or seek out stocks with better dividend yields and growth prospects. The point is that the added CPP premiums over the next few years can be offset completely with savvy investments.

Bottom line

The government's deficit is at historic highs. It's no secret that tax revenue plummeted while the government offered generous benefits to everyone last year. Now, the CRA must cover this deficit with higher contributions.

Canadian taxpayers should expect higher CPP payments in the years ahead. To offset this lose of income, consider generating dividends or capital gains via your TFSA.

CATEGORY

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