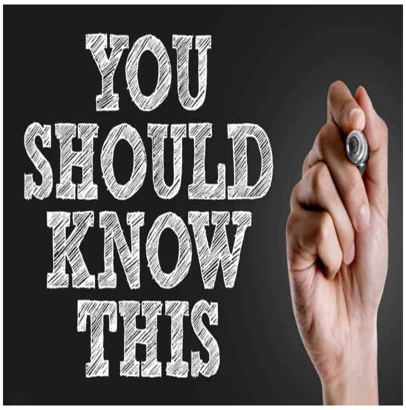

Canada Revenue Agency: 2 Significant Changes to Note in 2021

Description

With the rollout of the vaccine underway, many Canadians have a more positive outlook for 2021. The second wave was tough worldwide, and many Canadians found themselves back in isolation due to the pandemic. However, the vaccination campaign may provide something to look forward to as the year progresses.

The Canada Revenue Agency (CRA) played a monumental role in distributing various emergency payments to Canadians affected by the pandemic to ensure that they can continue generating revenue. The CRA has also announced two significant changes that you should know.

CPP contribution rates

The CRA's Canada Pension Plan (CPP) enhancements are underway. Contribution rates have gradually increased for the CPP since 2019. With the 2021 update, the employer and employee contribution rates have gone up from 5.25% in 2020 to 5.45%. The contribution rate for self-employed Canadians has gone to 10.5%.

This year's maximum pensionable earnings is $61,600 in 2021 compared to $58,700 in 2020 due to the increase in contribution rate. While it might cost you more out of your pocket right now, the CPP enhancements will result in higher pension payouts from the CRA.

TFSA contribution limit update

Tax-Free Savings Account (TFSA) users will be delighted to learn about fresh new contribution room available in the investment vehicle. With the 2021 update, active TFSA users now have $6,000 additional contribution room. The contribution room increases each year indexed to inflation and rounded off to the closest $500.

The CRA stuck to the same limit increase as 2019 and 2020, because inflation was not too high this time. With the latest increase, the cumulative TFSA contribution room since 2009 is now $75,500.

A stock to consider for TFSA

Fortis (TSX:FTS)(NYSE:FTS) is an ideal asset to consider for at least some of the new contribution room. It is a staple asset in investor portfolios with a long-term horizon. The utility company provides investors with reliable returns that keep increasing each year. Fortis is a Canadian Dividend Aristocrat with a 47-year dividend-growth streak.

It means that the company has been increasing its payouts to shareholders for almost half a century. Fortis can offer increasing dividends to its shareholders due to its business model. The company provides an essential service to its customers across the country. No matter how bad the economy gets, Fortis can continue generating revenues.

Additionally, almost its entire revenue comes from highly regulated assets and long-term contractual agreements. Fortis's management knows about its cash flows at the beginning of the year, allowing the company to allocate funds without any fear of surprises throwing off its plans.

Fortis can comfortably finance its expansion and increasing dividend payouts. It can be an excellent addition to your TFSA portfolio.

Foolish takeaway

With the CPP enhancements increasing your out-of-pocket expenses, earning tax-free and passive dividend income through a portfolio of stocks like Fortis in your TFSA can help you offset some of the expenses. By remaining invested in the stock for the long run, you can supplement your active income until you retire and boost your pension by using your TFSA as a secondary pension plan through reliable dividend stocks.

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