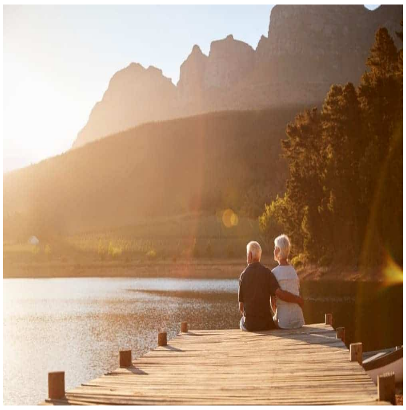

The CRA's $1,157 Age Amount Tax Credit for 2021: No Senior Left Behind

Description

Did you just turn 65? The Canada Revenue Agency (CRA) is giving a new gift — a tax credit called age amount. As long as your date of birth is correct in the CRA records, you can claim this benefit. The age amount tax credit is non-refundable, and the CRA changes it every year to adjust for income and inflation.

How can you claim the age amount tax credit?

The CRA has set the age amount at $7,713 for 2021. It was $7,637 last year. On this amount, you can claim a credit of up to $1,157 (15% of $7,713) since the minimum federal tax rate is 15% for 2021. The agency allows you to deduct the age amount tax credit from your federal tax bill.

- You can deduct the entire age amount tax credit of $1,157 if your 2021 annual net earnings do not surpass $38,893.
- If your earnings are more than $38,893 but less than $90,313, the CRA will reduce your age amount by 15% of whatever you earn above $38,893.
- If you earn more than $90,313, you will not get the age amount tax credit.

For instance, Julie is 66 years old and is still working. She earns $50,000 in 2021. Her earnings are $11,107 more than the $38,893 threshold. She can claim the age amount of $6,047 ($7,713 – $1,666, which is 15% of the additional earnings of $11,107). This will reduce Julie's federal tax bill by $907.

A few provinces also offer age amount tax credit. If you are residing in Ontario and earning a maximum of $39,546, you can deduct $5,312 in the age amount. Your age amount gradually phases out at net income above $74,960.

What should you do with your age amount tax credit?

It is time to retire and let your money do the work. You can relax and put your savings in your Tax-Free Saving Account (TFSA) to enjoy tax-free dividends. Invest $50,000 equally between **Enbridge** (
TSX:ENB

)(NYSE:ENB) and **Canadian Utilities** (TSX:CU).

Enbridge has been paying incremental dividends for the past 26 years. The company increased its dividend per share, even during the pandemic, when other companies either stopped or cut back on dividends. The company achieved this feat on the back of the pipeline infrastructure it has built over the last +60 years. The amount of money and efforts it put into building these pipelines are finally reaping results in the form of steady cash flow.

Enbridge operates the third-largest natural gas utility in North America. It has expanded its portfolio to renewable energy and natural gas storage. This will help the company generate cash and pay dividends, even when demand for crude oil and natural gas falls.

Enbridge stock fell 35% in March 2020, which increased its dividend yield up to 9%. The stock bounced back 30% from its pandemic low as oil demand increased with the reopening of the economy. This reduced its dividend yield to 7.7%.

Like Enbridge, Canadian Utilities also has a history of paying incremental dividends for the last 48 years. It has increased its cash flow by building new infrastructure and rising electricity prices. Its stock fell 40% in March 2020 when energy demand dipped, as the pandemic-induced lockdown forced shops, factories, and offices to close.

The stock price dip increased Canadian Utilities's dividend yield to 6.8%. When the stock recovered 25% from the pandemic low, the dividend yield reduced to 5.6%. The company plans to boost its dividends in the current decade by investing in new projects.

A passive income that beats inflation

Your $50,000 investment in Enbridge and Canadian Utilities will help you earn a dividend of $3,325 ($1,925 + $1,400) in 2021. The $1,925 dividend you earn from Enbridge will rise to $2,828 in the next five years if the company increases its dividend per share at a compound annual growth rate (CAGR) of 8%. In the case of Canadian Utilities, the dividend per share will increase to $2,057 at an 8% CAGR.

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