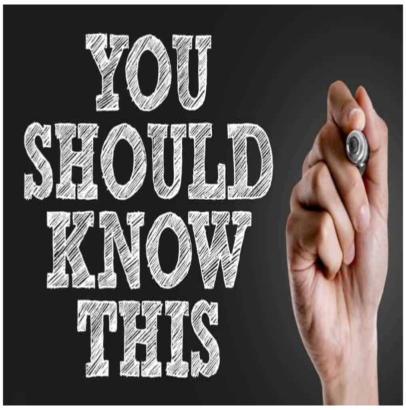

Canada Revenue Agency: 2 Big Changes Coming to Your 2021 Paycheck

Description

Did you get your first paycheck for 2021? The deductions might seem higher. This is because the Canada Revenue Agency (CRA) has increased the paycheck deductions for 2021. Two of the biggest changes that your paycheck must have witnessed are a rise in Employment Insurance (EI) premiums and your contribution towards the Canada Pension Plan (CPP).

What are these paycheck deductions?

Let us learn about these deductions in detail. Every year the Canada Employment Insurance Commission (CEIC) and Service Canada revise the EI premiums and CPP rates. They also decide on which income bracket will the new rates apply. When changing the rates and income bracket, the agencies take into account the rise in the average weekly income of Canadians.

Employment Insurance premium

The government will use the EI premium that you pay to help you financially when you lose your job for no fault of yours. For 2021, the CEIC did not change the employee’s EI premium rate (1.58%) in light of the COVID-19 pandemic. However, it raised the maximum insurable earnings from $54,200 last year to $56,300 for 2021.

For instance, Rachel earned $65,000 last year. She did not get a raise in 2021 due to the pandemic. Her employer deducted $889.5 toward EI premium ($56,300 x 1.58%) in 2021, up from $856.4 ($54,200 x 1.58%) in 2020. Even though the EI premiums rate remained the same, Rachel’s deduction increased due to a rise in the limit of maximum insurable earnings.

The Canada Pension Plan

The government launched the CPP program to encourage retirement savings among Canadians. You start contributing towards the plan from the day you start earning. You can withdraw from the CPP between 60 to 70 years of age or under special circumstances.

For 2021, the employee CPP contribution rate stands at 5.45%, up from 5.25% last year. The maximum pensionable earnings limit has also increased to $61,600 from $58,700 for 2020. You contribute towards the CPP on the amount earned above $3,500.

In the above example, Rachel's CPP contribution will amount to $3,166 ($58,100 x 5.45%) in 2021. This is more than $2,898 contributed towards the plan ($55,200 x 5.25%) in 2020. The increase in the CPP and EI premium rates and maximum earnings will reduce Rachel's annual net salary by more than $300 in 2021.

Meanwhile, the government has also increased the tax credits. The CRA has increased the age amount tax credit by nearly $11 and the basic personal amount tax credit by $87 for 2021. These higher tax credits will help offset the increase in paycheck deductions.

How can you boost your paycheck in 2021?

While you can't opt-out of your paycheck deductions, there is another paycheck on which the CRA cannot put its tax claws. It is the investment income you earn through your Tax-Free Savings Account (TFSA). You can invest up to $6,000 in your TFSA and make tax-free withdrawals. Investments made via this account will help you earn back the $300 that you will pay in additional deductions. Here's how.

You can invest in **TC Energy** (TSX:TRP)(NYSE:TRP), a must-have dividend stock in your TFSA portfolio. It has been paying incremental dividends for the last two decades. Last year, when other companies ceased or slashed their dividends, TC Energy increased its dividend per share by 8%. It plans to increase its dividend at the same rate in 2021 as oil demand recovers. The company has a dividend yield of nearly 6%.

If you invest $5,000 in TC Energy now, you will earn an annual dividend of $300 by the end of the year. The $300 dividend income will rise to around $600 over the next 10 years if TC Energy grows its dividend at a compound annual growth rate (CAGR) of 8%. This is in addition to the rise in the company's stock price, which has a recovery upside of 24%.

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pujatayal