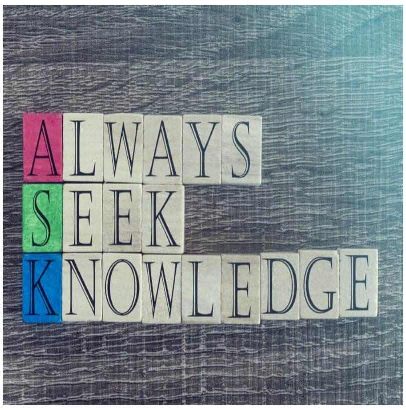

Canada Revenue Agency 2021: Big Changes to the TFSA and CPP Pension

Description

Canadians must be aware of two pivotal changes the Canada Revenue Agency (CRA) agency is implementing in 2021. It should matter because it has implications on income, retirement pension, and long-term financial goals.

Wealth-building continues

The new TFSA contribution limit for 2021 is the same as in 2019 and 2020. Users will have an additional contribution room of $6,000. Also, the cumulative contribution room is now $75,500 from $69,500 last year.

In the coming tax season, TFSA investors can once more use the account as a tax-saving tool. Retirees can move their cash and other eligible assets to the TFSA to avoid or minimize the 15% OAS clawback. None of the earnings in the TFSA are taxable income. Don't over-contribute to avoid the 1% penalty tax monthly on the excess contribution.

Major overhaul

The CPP is undergoing a major overhaul that began in 2019. Users will have to sacrifice a bit and receive less annually until 2023 because of higher contribution rates. However, the impact down the road is significant. The enhancements will increase the maximum CPP retirement pension by up to 50% if you make enhanced contributions for 40 years.

Under the enhanced CPP, the contribution rate from 2019 to 2023 will increase by 1% overall. The employer and employee contribution rate before January 1, 2019, was 4.95%. But in the succeeding years until 2023, the contribution rate is above 5% and up to 5.95%.

The following shows the respective percentage increases per year and corresponding contribution rates:

Year	Employer/employee	Self-employed
2019	0.15% / 5.10%	0.3% / 10.2%
2020	0.15% / 5.25%	0.3% / 10.5%
2021	0.2% / 5.45%	0.4% / 10.9%
2022	0.25% / 5.70%	0.5% / 11.4%
2023	0.25% / 5.95%	0.5% / 11.9%

For 2021, the annual salary cut per employee is $3,166.45, and the employer will match their employee’s contribution. Meanwhile, a self-employed individual will shell out $536.90 more than in 2020 or a total of $6,332.90. The CRA will introduce a second, higher limit in 2024 that allow users to invest an additional portion of earnings to the fund.

Pad your TFSA balance

Padding your TFSA balance faster isn’t impossible if you’re holding is a recession-proof and high-yield asset rolled into one. Independent power producer **Capital Power** (TSX:CPX) offers a generous 5.54% dividend. A $6,000 investment will produce $332.40 in passive income, while $75,500 will generate a massive windfall of $4,182.70.

Capital Power is a $3.9 billion wholesale power generator that caters to commercial, industrial, government, and institutional end-users in Canada and the United States. Currently, the total power generation capacity of its 28 contracted facilities across North America is over 6,400 MW.

The compelling reason to invest in this utility stock is that Capital Power is a leading growth-oriented power producer in the region. Furthermore, its cash generation potential is fantastic as the secured fixed-price contracts’ life is ten years. Management will also capitalize on the home country’s electrification trends and across the border to drive growth. Initiating a position in Capital Power in 2021 is a terrific idea.

Positive outcomes

This year could be another challenging year because the government has yet to contain the pandemic fully. The TFSA can help users earn tax-free money while the CPP enhancements ensure would-be retirees will have more pension in the future. Thus, the CRA’s twin moves that will repeat in the succeeding years will likely see positive outcomes to Canadians desiring lower taxes and higher guaranteed income for life.

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