CRA Changes: 2 Big Updates for the RRSP and TFSA in 2021

Description

The CRA came up with a lot of changes and a lot of new benefits and payments in 2020. All those new initiatives were necessary to help people through a medically, socially, and financially tough year. And even though a lot of payments and changes that were initiated in 2020 would continue to 2021, there are some consistent and routine changes you shouldn't forget about.

The two most anticipated changes the CRA announces every year are, unsurprisingly, regarding the TFSA and RRSP.

The RRSP change

The RRSP dollar limit has been increased by $600. It's $27,830 compared to $27,230 last year. But the contribution limit of 18% is still consistent, so this change in the ceiling won't impact you, unless you earned more than about $151,300 in 2020 and want to max out your contributions.

Even if you earned a relatively modest amount, the RRSP contributions could still be a significant sum, and if you can max it out, you are likely to get a decent tax break. But in order to maximize the potential of your RRSP contributions, you need to invest them in a stock that can turn them into a decent nest egg for your retirement. One such stock is **Open Text** (TSX:OTEX)(NASDAQ:OTEX).

It has been an adequately stable growth stock with a relatively sustainable growth rate. The company has a 10-year CAGR of 18.3%, which might not be as glamorous as some growth monsters in the tech sector, but it's more likely to stay consistent for a few decades. Just $10,000 from your RRSP in this company can grow to a quarter of a million in two decades.

Open Text offers a variety of products and services, including AI & Analytics, information management, and cloud. It has a strong balance sheet, and apart from one year (2016), its revenues have been growing for the last 10 years.

The TFSA change

The TFSA contribution limit for 2021 is $6,000, bringing down the total contribution room for people who've never contributed to the TFSA (and were 18 before 2009) $75,500. But even if you just stick to the $6,000, it can be quite powerful in a stock like **Northland Power** (TSX:NPI), which is both a dividend and growth stock.

Green energy is the future, and Northland focuses on clean power generation. It has 27 different facilities in Canada, Europe, and South America. The company is now offering a dividend yield of 2.46%. It also offers a decent but modest growth potential (if you discard the unusual growth spurt after the 2020 market crash).

The fact that it has a geographically diverse portfolio of clean power-generation facilities endorses NPI's value as a decent long-term investment.

Foolish takeaway

Both RRSP and TFSA can play a central role in your financial future and retirement planning, but a TFSA can wear multiple hats. You can also use it for your short-term goals, but in order to grow your nest eggs to meet your short-term goals, you'll need to look for stocks that are growing at an adequate pace. You might need to trade in safety for growth, but that's a trade you need to make after thoroughly assessing your options.

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