



Canada Revenue Agency: Don't Miss the \$1,157 Age Amount Tax Credit in 2021

Description

The average age of retirement in Canada is 64. But people work past their retirement age, as jobs require less physical labour. Some people also continue working beyond the age of 64 if they have a loan or debt. It is always better to pay off any debt or loan before retiring. Other reasons why people retire late is because of higher life expectancy and delayed life transition.

But with age comes additional expenses, as you spend more on comfort, travel, medicine, and home improvement. The Canada Revenue Agency (CRA) understands this and helps you with some tax benefits. One of these tax benefits is the age amount tax credit.

How do you calculate the age amount tax credit?

Age amount is a non-refundable tax credit that the CRA gives once you turn 65. You can also claim all or part of this tax credit on your spouse's income tax return. Your date of birth should be correct in the CRA's records for you to get the age amount tax credit.

For 2021, the CRA has set the age amount limit at \$7,713, after [adjusting](#) for income and inflation. This amount was more than \$7,637 in 2020 and \$7,494 in 2019. The CRA believes that this amount is sufficient for the additional expenses that come with age. You can claim an age amount tax credit of up to \$1,157 (15% of \$7,713) in 2021 if your net income is less than \$90,313.

You can deduct the age amount tax credit from your federal tax bill. Please keep the following conditions in mind before claiming the credit:

- If your annual net income for 2021 is less than \$38,893, you can deduct the entire age amount tax credit of \$1,157 from your tax bill.
- If your earnings lie between \$38,893 and \$90,313, the CRA will reduce your age amount by 15% of earnings above \$38,893.
- You will not get the age amount tax credit if your annual net earnings are more than \$90,313.

The tax implication of the age amount

Let me explain the age amount tax implication through an example. John is 67 years old and lives in Ontario. He is still working and earns \$45,000 per year, which is \$6,107 higher than the age amount limit of \$38,893. John can claim an age amount of \$6,797 (\$7,713 – \$916, which is 15% of \$6,107). This will reduce his tax bill by nearly \$1,020 (15% of \$6,797).

Some of the Canadian provinces like Ontario offer their own age amount tax credit. If you stay in Ontario, you can deduct up to \$5,312 in the age amount if your annual net income is \$39,546. The credit phases out at \$74,960. John can reduce his provincial income tax by \$227 (5.05% of the \$4,494 age amount).

A passive income for your retirement

You are already 65 and may not be able to work for long. It is time you start collecting a pension from your Tax-Free Saving Account (TFSA). All the income that you earn through this account is tax-free. You can [invest in dividend stock](#) **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)) via your TFSA.

Energy infrastructure firm TC Energy has earned a reputation by paying incremental dividends for the last two decades. The company's dividend yield has increased to 5.79% following a decline in its stock price. The stock declined over 10% in the last 12 months due to the impact of the COVID-19 pandemic. When Joe Biden became the U.S. president, TC Energy's Keystone XL pipeline project became uncertain, which hurt its stock price.

However, TC Energy continues to be a preferred stock for long-term investors, as it plans to invest around \$25 billion over the coming few years in other energy infrastructure projects. It has also invested \$1.7 billion in the renewable energy segment like wind and solar energy projects. This diversification will allow the company to increase its dividend at a compound annual growth rate of (CAGR) of 8-10%.

If you invest \$2,000 in TC Energy today via your TFSA, it will give you a dividend income of \$120 by the end of this year. The dividend income will reach \$259 in the next 10 years if the company increases its dividend per share at a CAGR of 8%.

CATEGORY

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