



Canada Revenue Agency: Big Changes Coming to Your 2021 Income Tax Bracket

Description

Last year was very different for everyone. The pandemic affected different businesses differently. Many people lost their jobs or took pay cuts, while some got significant hikes in salary. While this was a one-off year, it didn't stop the Canada Revenue Agency (CRA) from introducing the new income and inflation-adjusted income tax bracket for 2021. See how this change will impact your salary and tax bill.

The CRA's 2021 income tax bracket

While the CRA has maintained the income tax rate, it has increased the [income tax bracket](#). The table below shows the federal tax rate. The CRA has increased the minimum income tax bracket to \$49,020 in 2021 from \$48,535 last year.

2020 Taxable Income	2021 Taxable? Income	Tax rate
?\$1 to \$48,535	?\$1 to \$49,020	?15%
Over \$48,535 to \$97,069	Over \$49,020 to \$98,040	?20.5%
Over \$97,069 to \$150,473	Over ??\$98,040 to \$151,978	?26%
Over \$150,473 to \$214,368	Over \$151,978 to \$216,511	?29%
Over \$214,368	?Over \$216,511	33%?

What do these revised tax brackets mean to you? If your job suffered from the pandemic and you didn't get a good salary hike this year, you will benefit from a lower income tax bill. However, if you received a nominal income hike, your income tax bill won't surge significantly. The CRA has not only revised the income tax brackets but also the various tax credits it offers to Canadian residents. For instance, the CRA revised the [basic personal amount \(BPA\) tax credit](#) to \$2,071 in 2021 from \$1,984 in 2020.

How will the CRA changes impact your 2021 income tax bill?

I will show two scenarios to explain the tax implication of these changes.

Scenario one:

John works in a retail company and earned \$50,000 in 2020. His company was significantly impacted by the pandemic. Hence, he got no hike in pay. His 2020 federal tax bill, without adjusting for any tax benefits, was \$7,581. His 2021 federal tax bill will reduce by \$27 to \$7,554, because of the change in the income tax bracket.

If I include the BPA adjustment, John's federal tax bill will reduce by \$114 from \$5,597 in 2020 to \$5,483 in 2021.

Scenario two:

Mary works in a software company and earned \$50,000 in 2020. Her company made significant profits during the pandemic. Hence, she got a good hike of 10%, and her 2021 income rose to \$55,000. Her 2020 federal tax bill, without adjusting for any tax benefits, was \$7,581. Her 2021 federal tax bill will increase by around \$1,000 to \$8,579 because of the change in the income tax bracket and the salary hike.

If I include the BPA adjustment, Wanda's federal tax bill will increase by \$911 from \$5,597 in 2020 to \$6,508 in 2021.

I only took the BPA tax credit for the ease of calculation. The more tax credits you apply, the more your tax bill will reduce.

Leverage the CRA changes to boost your TFSA portfolio

In this dynamic economy, you will see periods of a good income hike, no hike, and sometimes pay cut. Just relying on salary is not sufficient. You need to have multiple sources of income and investment income through the Tax-Free Savings Account (TFSA). The CRA allows you to contribute \$6,000 in 2021 from your taxable income in TFSA. The CRA does not tax the investment income you earn in a TFSA.

As the world is changing at a faster pace, so are the investing themes. The 2021 theme is clean energy. Automotive stocks have not done well in the past few years, as the overall car demand is slowing. But within the automotive market, electric vehicle (EV) sales are rising. IHS Markit expects global EV sales to surge about 70% in 2021. This surge will come from the pent-up demand in 2020 and the U.S. president Joe Biden's investment in EV and EV infrastructure.

Magna International, the third-largest global automotive supplier, will benefit from this EV wave. The 63-year-old Canadian manufacturing giant has entered several joint ventures with tech companies and automakers to build EVs for them. It has also invested in some companies like **Alphabet's** Waymo and **Fisker**. Magna stock will grow as EV sales gather momentum.

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Date

2025/09/27

Date Created

2021/02/15

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