



Canada Revenue Agency: How 2021 Income Tax Brackets Will Impact Your Tax Bill

Description

It is the tax season. April 30 is the last day to pay your taxes. It is also time to start preparing for the 2021 tax year. The Canada Revenue Agency (CRA) has [updated](#) the tax brackets for inflation, but it has kept the tax rates the same as in 2020.

The 2021 federal income tax bracket

In this article, I will discuss the CRA's income tax bracket for the tax year 2021, how it is different from the 2020 tax year, and how it will impact your tax bill. Below you can find a table comparing the federal income tax rates for the 2020 and 2021 tax years.

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%?

How will the 2021 income tax brackets impact your tax bill?

The COVID-19 pandemic has caused a lot of financial issues for Canadians. Some lost their jobs, while some took pay cuts. Among those who managed to keep their jobs, increments look bleak, as companies struggle to come out of the crisis, which shows no signs of receding. If you did not get a pay hike this year, your income tax bill will reduce due to the increase in the income tax brackets.

For instance, Joey, a 66-year-old financial auditor, earned \$60,000 last year. His 2020 federal tax bill stands at \$9,630 without adjusting for any tax benefits. He used the basic personal amount (BPA) tax credit of \$1,984 and an [age amount tax credit](#) of around \$662. These two tax credits reduced his 2020 federal income tax bill to \$6,984 (\$9,630 – \$2,646).

Joey did not receive an increment this year due to the pandemic. After the income tax brackets increased, his 2021 tax bill amounts to \$9,604 before considering any benefits. For the 2021 tax year, Joey will get a BPA tax credit of \$2,071 and \$682 in age amount tax credit. Thus, his federal income tax bill will reduce to \$6,851 (\$9,604 – \$2,753, the sum of \$2,071 and \$682).

The increase in income tax brackets reduced Joey's tax bill by \$26. After including the BPA and age amount tax credits, the tax bill came down by \$133. This is because the CRA also increased the BPA from \$13,229 in 2020 to \$13,808 for 2021 and the age amount from \$7,637 to \$7,713. You can claim up to \$2,071 in the BPA tax credit and \$1,157 in the age amount tax credit for 2021.

Put your tax savings to work

You can make these income tax savings earn for you by investing in Dividend Aristocrat **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) via your Tax-Free Saving Account (TFSA). All withdrawals from this account are tax-free, and you can contribute up to \$6,000 in your TFSA this year.

For the last +25 years, Enbridge has been paying incremental dividends. It increased its dividend even during the pandemic when other firms cut costs and stopped or reduced dividends. The company has an expansive infrastructure of pipelines, through which it transports oil and natural gas. Irrespective of the economic conditions, these pipelines help Enbridge earn a steady cash flow. This is how the company managed to pay incremental dividends even during the pandemic.

Further, Enbridge has expanded into the renewable energy segment to diversify its portfolio. This is likely to give a boost to the company's cash flows once the renewable energy wave gains momentum.

Enbridge has a dividend yield of 7.55%. If you invest \$10,000 in the company today, you will earn \$755 in dividends by the end of this year. The dividend amount will rise to more than \$1,600 over the next 10 years if Enbridge increases its dividend per share at a compound annual growth rate of 8%.

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Date

2025/07/08

Date Created

2021/02/23

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