



Canada Pension Plan: Be Prepared for a \$268 Pay Cut in 2021

Description

Did you notice that your first paycheck for 2021 is lower than your last year's paycheck? Setting aside increments, there is a \$22.4 cut (\$268.5/12) in your latest paycheck. This is because the Canada Revenue Agency (CRA) has increased employees' contribution towards the Canada Pension Plan (CPP) for 2021.

What is the Canada Pension Plan enhancement?

The CPP program aims to make you save for your retirement from your first day at work. You should be at least 18 years old to contribute to the program. Your earnings of \$3,500 are exempt from the CPP contribution. The amount you earn above \$3,500 is what your employer uses to calculate your contribution.

In 2019, Service Canada launched the CPP enhancement program, under which it will raise the CPP contribution rate every year until 2025. For 2021, the rate stands at 5.45%, up from 5.25% last year. Service Canada also increased the maximum pensionable earnings to \$61,600 from \$58,700 in 2020.

Under special circumstances, you can decide to stop contributing to the CPP program. However, this will reduce your [future payouts](#) as they are based on your contributions.

How will a higher Canada Pension Plan contribution reduce your paycheck?

Your employer deducts your CPP contribution from your taxable salary and gives it to the CRA. It contributes the same amount as you towards the CPP. Even if you did not receive a raise in your 2021 salary, your CPP contribution amount will increase as the contribution rate has increased.

For instance, Joan lives in Toronto and earned \$66,000 in 2020. She did not receive a hike this year due to the COVID-19 pandemic. She meets the maximum pensionable earnings limit for both years. For better understanding, I have compared Joan's CPP contributions for 2020 and 2021 below:

- In 2020, Joan's CPP contribution totaled \$2,898 (which is 5.25% of \$55,200), as her \$63,000 income surpassed maximum pensionable earnings of \$58,700.
- In 2021, Joan contributed \$3,166 (which is 5.45% of \$58,100) in CPP contribution. This year also her earnings were more than the maximum pensionable earnings of \$61,600.

Joan's CPP contribution increased by \$268 (\$3,166 – \$2,898), or \$22.3 per month in 2021, even when her income remained the same. This is due to the rise in the employees' contribution rate to the CPP program.

Alternative income with no deductions

The CRA will lay its claws on your working income, but there is alternative income that the agency cannot touch. It is your investment income you earn from the Tax-Free Savings Account (TFSA). You can invest in **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)), which was one of the best-performing stocks last year. Lightspeed stock has surged nearly 500% since its initial public offering (IPO) in March 2019. If you had put \$500 in the IPO, your investment would have increased to \$2,500 by now.

Lightspeed offers cloud-based point-of-sale (POS) solutions to small- and mid-sized restaurants and retailers. The fiscal third quarter was the company's strongest quarter in three years. Its revenue surged 79% year over year, the highest in three years. The recent acquisitions of Upserve and ShopKeep drove the revenue growth. These acquisitions have helped Lightspeed tap into the U.S. retail and hospitality POS market.

During the pandemic, Lightspeed launched new solutions such as eCom for restaurants, Lightspeed Subscriptions, and Order Ahead. These innovations boosted its organic revenue growth by 58% in the calendar year 2020. For the fiscal fourth quarter, Lightspeed expects revenue growth of 90% to US\$70 million.

Does Lightspeed have the potential to grow further?

Lightspeed CEO Dax Dasilva, in an interview with Motley Fool Canada, talked about his growth plans. He said that a growing customer base, rising adoption of Lightspeed Payments, and the resulting increase in gross transaction volume would drive revenue growth.

Global Market Insights [expects](#) the global cloud POS market to rise at a compounded annual growth rate of over 27% between 2020 and 2026. Lightspeed plans to tap this growth by using its cash reserve of US\$230 million to make more acquisitions. It is currently in discussions with cloud-based POS companies that have a similar business model. The company aims to become a global POS platform for the hospitality and retail industries.

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