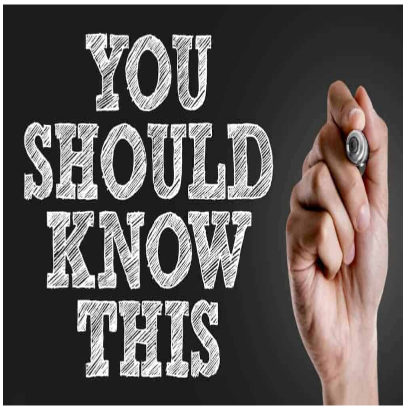

Canada Revenue Agency: 1 Big Change That Will Affect Your Paycheck

Description

For most Canadians who don't receive any benefit payments, the interaction with the CRA is minimal. Or, at least, that's what they think. They don't think much about the CRA until it's time to do their taxes. But if you think about it, the CRA permeates the financial lives of Canadians on a number of levels, including how much they receive in wages from their employers.

The CRA decides the tax rate and different amounts that are withheld from your paycheck, and a change in these rates directly impacts how much you receive from your employer. Therefore, it's important to stay vigilant regarding any modifications that the CRA announces before the start of every new fiscal year.

One significant change you need to know about

For 2021, the CRA made several new announcements, some of which directly impact your paycheck. None of the changes are drastic enough that you might see the zeros on your paycheck disappear. In fact, you might not even notice the difference in most cases. But one change that you should know about is the CPP contribution rate, which is now 5.45% instead of the 5.25% it was last year.

The 0.2% difference, even when spread out over 12 months, will be quite apparent. If you are earning an income above the maximum pensionable earning threshold (which has also been increased to $61,600), you might be paying about $23 additional every month, thanks to the 0.2% increase in the CPP contribution rate.

Cover the additional expense with dividends

If you can invest $6,000 — i.e., your yearly TFSA contributions — into a high-yield aristocrat like **Exchange Income Fund** (TSX:EIF), which is currently offering a generous 5.63% yield. That would come out to about $28 a month in tax-free dividend income, which is more than enough to cover the change in paycheck you might experience from the difference in the CPP contribution rate.

The company has been growing its dividends for over a decade now. It didn't slash its dividends, even though it suffered quite a lot in terms of valuation and revenue, thanks to its association with the airline industry. The market value has recovered quite near the pre-pandemic value, and the stock is a bit overpriced right now.

But it might be worth the cost because of its yield and steady growth potential. The current payout ratio is a bit shaky, but the company's chances of slashing its dividends and eliminating its aristocrat streak are relatively low now.

Foolish takeaway

Every Canadian should be aware of the changes that the CRA announces at the start of every year. Even if they don't impact your paycheck, they might help you with more deductions and tax credits or prevent you from overcontributing to your registered accounts. Many of the changes, like the contribution rate for the CPP, will repeat in the next year as well.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EIF (Exchange Income Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
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