CRA: 3 Essential Steps to Prepare for Tax Season 2021

Description

Canada Revenue Agency (CRA) is gearing up for one of the most complicated tax seasons in Canadian history. The rollout of new benefits, temporary mortgage deferrals and remote work arrangements have complicated everyone's financial situation. Next month, Canadians will have to account for these shifts in their filing.

Here are the three things you need to keep in mind as we enter the tax season.

CRA benefits

Over eight million Canadians applied for the Canada Emergency Response Benefit (CERB) last year. If you were one of the applicants, you may need to account for thousands of extra dollars as taxable income this year.

CERB payments are taxed like regular income. However, if you repaid the CERB payments in full before December 31st, you no longer owe taxes on them. Nevertheless, most Canadians should expect to pay a portion of their benefits back to the CRA this tax season.

The CRA may send you a T4A or T4E form with instructions for how to report these amounts.

Work from home credit

Up to $400 in tax credits have been earmarked for remote workers. Professionals who were forced to work from home throughout the pandemic can now claim part of their home office expenses as a CRA credit.

If you're self-employed, you're probably claiming such expenses already. For employees, your firm may have to sign a form to let the CRA know you've moved to remote work in 2020 and weren't reimbursed for home office expenses.

Tax-free investments

The CRA has expanded the tax-free savings account (TFSA) contribution room by another $6,000 in 2021. That means you can invest more through this tax-efficient platform to secure your finances for the long-term.

Constellation Software (TSX:CSU) is a top pick for your TFSA, if you're looking for investment opportunities. My *Fool* colleague Chris MacDonald believes this stock could be the key to achieving that elusive $1 million TFSA.

That's because Constellation's business model is clearly structured for long-term growth. The company acquires small and medium-sized software companies and uses the recurring cash flow from their subscriptions to acquire more over time. In over 30 years, the company has acquired roughly 300 companies.

Investors who bought the stock in 2006 have turned $1,000 into $93,000 in less than 15 years. That track-record is one of the best in the tech sector.

This year, the company announced it would conserve more cash by suspending some dividends. These dividends would be deployed in larger acquisitions targets that may or may not be related to software. In other words, the company has raised its targets, potentially creating an immense windfall for investors over time.

If you've received benefits or a tax refund from the CRA this year, consider deploying this cash into Constellation stock. Ideally, through your TFSA.

Bottom line

Taxpayers will need to consider their benefit payments and special credits for remote work this year. All the government incentives could be invested in robust growth stocks such as Constellation Software.

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