



The CRA's \$2,071 Basic Personal Amount Tax Credit: No Canadian Left Behind

Description

Every Canadian over 19 years of age should file income tax returns. The Canada Revenue Agency (CRA) gives many cash and tax benefits, even if you don't earn much. If you earn \$1,100 per month, you need not even pay federal tax. Are you wondering how? The CRA is giving a basic personal amount (BPA) tax credit for 2021.

What is the basic personal amount tax credit?

The CRA does not tax every penny that you earn. It considers a basic amount you need for living. The BPA covers necessities like the amount you spend on food, rent, and clothing. It is a non-refundable tax credit that the CRA gives to Canadians earning less than the BPA. For 2021, the CRA has allowed \$13,808, or \$1,151 per month, for these basic expenses.

The BPA of \$13,808 for 2021 is higher than \$13,229 last year. The CRA plans to increase the BPA to \$14,398 in 2022 and \$15,000 in 2023 after [adjusting for inflation](#).

However, you cannot take \$13,808 from your taxable income. The CRA calculates the federal tax rate of 15% on the BPA and deducts it from your tax bill. The BPA will reduce your tax bill by as much as \$2,071, which is 15% of \$13,808. All you need to do to get the BPA tax credit is file your income tax returns. The CRA calculates the BPA tax credit on your annual income.

Basic personal amount ensures that no Canadian is left behind

Every Canadian above the age of 19 gets the BPA tax credit — the richest and the poorest. It is just that people in the low-income group get a higher amount of tax credit. Let me explain each scenario with an example for better understanding.

Gracy earns \$110,000 in 2021. She can deduct the entire BPA tax credit of \$2,071. John earns \$170,000, so his BPA tax credit will be less than \$2,071 but more than \$1,863 (15% of \$12,421 mentioned below). Sarah earns \$220,000 in 2021. She will get a BPA tax credit of \$1,863. This is

because the BPA for people earning between \$151,978 and \$216,511 ranges from \$13,808 to \$12,421.

The above examples show that as your annual income increases, your BPA tax credit reduces. The CRA believes that the lower-income group spends a higher portion of their income on basic expenses as compared to the higher-income group.

Beat inflation with investment income

The CRA adjusts the BPA for inflation every year. If you want your income to grow, you don't have to adjust for inflation but beat it. Only then will your real income surge. For that, you need to create a portfolio that can outperform the market by investing in high-quality growth and dividend stocks.

One dividend stock worth considering is **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)). The energy infrastructure firm has been paying incremental dividends for the past two decades. It has been growing its dividend at a compounded annual growth rate (CAGR) of 7%, while Canada's average inflation rate is 1.5-2%. The stock is trading at a 25% discount from its pre-pandemic levels, which has inflated its dividend yield to 6.4%

If you invest \$10,000 in TC Energy today, you will earn \$640 in dividend income by the end of the year. If the company continues to grow its dividend at a CAGR of 7%, your dividend income will reach \$1,259 by 2030. Even if inflation rise, your real income will increase.

You can also invest in growth stock **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)), a cloud-based point-of-sale (POS) platform. The stock has grown 380% since it got listed on the Toronto Stock Exchange in March 2019. In an [interview](#) with Motley Fool Canada, Lightspeed CEO Dax Dasilva said that the company aims to become a global POS platform for retailers and hospitality services providers. Lightspeed plans to achieve its target through acquisitions. It recently entered the U.S. retail and hospitality POS market by acquiring Upserve and ShopKeep. The company is also in talks to acquire other cloud-based POS companies.

Both stocks can help you bet inflation and generate wealth while mitigating the risk of decline.

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1. Dividend Stocks
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TICKERS GLOBAL

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