Canada Revenue Agency: 1 Unlikely Tax Break You Could Claim in 2021

Description

Even if you understand how essential taxes are and their role in keeping the country functional, it's no fun paying them. Unfortunately, there is no way to avoid them either, not entirely at least. But there are ways that you can reduce your tax obligation. These tax breaks come in two varieties: deductions and tax credits.

In order to pay just enough taxes and not a dollar more, you need to understand all the tax breaks you are eligible for. Some of the most common ones, like the RRSP, are relatively well known, but there are some tax breaks you might be ignoring.

Medical expenses

In Canada, you pay for your healthcare through taxes. The free healthcare that anyone can benefit from is funded by the people, and when you have your public health insurance, most of your medical expenses are virtually free.

The keyword here is *most*, and the medical expenses that fall out of its domain might get you a decent tax break. You might not be able to claim a relatively smaller amount since there is a minimum threshold. Only expenses that are either above $2,397 or 3% of your net income (whichever is lesser) can be claimed.

This means that if you have spent a significant sum on eligible medical expenses (nursing home, cancer treatments, certain transplants, etc.), you might be able to get a decent tax-break. Many of these expenses can be claimed even if they have happened outside of Canada.

Another sizeable tax-break

Apart from the unlikely tax-break you might be able to claim *if* you had significant medical expenses in the tax year, there is one break you can take advantage of every year, and that's your RRSP contributions.

You get to fund your retirement with the pre-tax dollars, which can lower your tax bill substantially. And if you can grow that amount in a good stock like **Canadian Apartment Properties REIT** (TSX:CAR.UN), you will be able to off-set the future taxes on that amount by a significant margin.

CAPREIT is one of the oldest aristocrats in the industry, and ironically, it's a REIT that its investors do not prefer for its dividends. That's understandable if you consider its modest 2.74% yield and bare minimum dividend growth (even though a very stable payout ratio backs it).

The chief attraction of this relatively undervalued REIT is its growth potential. Before the market crash of 2020, the REIT was growing at a decent pace. The growth has become stagnant since the crash, but the chances that this REIT might pick up where it left are strong enough. Its revenues and profits have been growing year over year, and 2020 was no exception.

If it keeps growing at its 10-year CAGR of 15.1% rate, it can convert your $10,000 investment into $40,000 in one decade.

Foolish takeaway

Given your personal and particular circumstances, you might be eligible for some tax credits that not everyone is eligible for. Make sure you do your homework before doing your taxes and identify every area where you can save money on your taxes.

CATEGORY

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