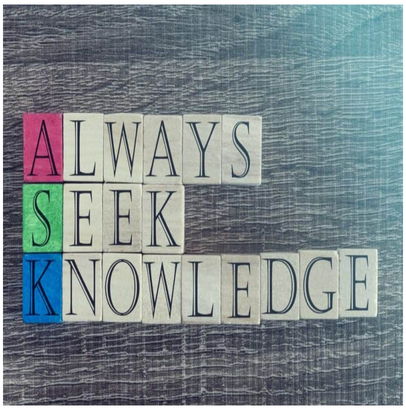


CRA: Big TFSA, RRSP, and CPP Changes in 2021

**Description**

The Canada Revenue Agency (CRA) announced several important updates in November 2020 for this year that investors and taxpayers were keenly looking forward to. The government agency disclosed three crucial updates with respect to the Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP), and Canada Pension Plan (CPP) that I will discuss today.



## TFSA contribution room increase

The CRA announced a $6,000 increase in the TFSA for this year. This means that the maximum cumulative contribution room in the account since its inception in 2009 is $75,500, up from $69,500 after the 2020 update.

Each year, the CRA adds more contribution room to the TFSA indexed to inflation. The CRA rounds off the number to the nearest $500. Any contributions you make to the TFSA are not tax deductible. However, any withdrawals and revenue in the form of capital gains, interest, and dividends are exempt from the CRA.

## RRSP contribution limit increase

According to the latest update, you can contribute up to $27,830 to your RRSP this year compared to the maximum limit of $27,230 in 2020. Canadians can contribute up to 18% of their income or the maximum contribution limit towards the RRSP, depending on which is lower.

The RRSP is a tax-sheltered account, and any contributions you make to it are tax deductible. However, the CRA can charge penalties for early withdrawals from your RRSP.

## CPP enhancements

The CPP enhancements that came into effect this year will impact millions of employed and self-employed Canadians that contribute to the pension fund. The enhancement will also affect businesses that have to cover 50% of employee contributions to the CPP fund.

The CRA has announced that the maximum pensionable earnings for 2021 are $61,600, up from $58,700 in 2020 due to a rise in CPP contribution rates. The employee and employer contribution rates to the CPP have increased to 5.45%, up from 5.25% last year. It also means that the contribution rate for self-employed Canadians has increased to 10.9%, because they cover both employer and employee contributions to the CPP.

The CPP enhancement means that Canadians may take a smaller amount from their paychecks home. But it also means that they can earn higher retirement income through the pension plan's monthly payments by the time they retire. The basic exemption amount for Canadians has remained at $3,500 for 2021.

## Generate tax-free income

Considering the possible tax-free gains after these updates, it would be best to consider adding a Canadian dividend stock like **Hydro One** (TSX:H) to your TFSA. Utilities are inherently safe investments due to their relatively safe business models. Unlike typical utilities, Hydro One provides its investors with an additional layer of safety with increased growth.



Hydro One is a utility company that is not involved in generating power. The company only takes care of transmission and distribution, allowing it to save substantial upfront costs and minimize its exposure to volatile commodity prices.

Like several other utilities, Hydro One generates stable and predictable earnings that allow the company to finance its dividend payouts comfortably. Hydro One is trading for almost $27 at writing, and it sports a juicy 3.76% dividend yield.

## Foolish takeaway

Being aware of the significant changes announced by the CRA can help you make more well-informed investment decisions. Make sure that you re-evaluate your investment portfolio and make any adjustments necessary to maximize your long-term benefits.

Allocating the additional TFSA contribution room to reliable dividend stocks like Hydro One could be one good way to begin.

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**TICKERS GLOBAL**

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