CRA 2020 Tax Filing: How to Reduce Your Income Tax Bill in 3 Easy Steps

Description

The Canada Revenue Agency (CRA) is promoting April 30 as the last date to file your income tax returns. You now have to pay tax on those $2,000/month stimulus checks you received last year. Is the amount of your tax bill giving you goosebumps? I bring to you three ways to reduce your tax bill.

The CRA offers many tax benefits to help Canadians enjoy their income instead of worrying about income tax. You must pay taxes because the CRA uses this tax money to give several cash benefits, including the generous stimulus checks. But you can reduce your income tax bill by claiming the right benefits.

Tax credits

In a tax credit, the CRA exempts federal or provincial tax on a particular amount, which it deems necessary to every individual. For 2020, the CRA is offering a federal tax credit on the basic personal amount (BPA) of $13,229 and the age amount (after you turn 65) of $7,637. Every province has a different BPA and age amount. These tax credits depend on your taxable income.

Apart from these, the CRA also offers some federal tax credits on specific expenses like digital news subscriptions ($500) and post-secondary training ($250). You can reduce the 15% federal tax on the above amounts like the $1,984 BPA tax credit (15% of $13,229) and $75 digital news subscription tax credit (15% of $500).

Tax deductions

The other way to reduce your income tax bill is by claiming tax deductions. The CRA allows you to deduct certain expenses from your net income, thereby reducing your total taxable income. Tax deductions offer higher savings than tax credits to high-income earners as they can reduce your tax bracket.

For 2020, the CRA has introduced a one-time home-office-expense deduction of up to $400. It also gives a child care expense deduction of up to $8,000 for children under seven and $5,000 for children between the seven and 16 age group. You have to meet the eligibility criteria and fill in relevant forms to avail of these deductions.

Timely filing of income tax returns

The above tax benefits will reduce your income tax bill. But if you don't file your returns before the April 30 deadline, the CRA will charge a 5% penalty on your outstanding income tax. With every month of delay, the CRA will increase the penalty by 1% for up to 12 months. Generally, it also charges interest on unpaid tax, but it has provided a one-year interest relief in the light of the pandemic. But if you don't pay your tax bill beyond April 30, 2022, the CRA will also charge interest.

It's better to avoid these penalties and interests that can increase your tax bill significantly. Submit your tax returns before April 30 and pay your taxes in the one-year time frame.

Pay your 2020 income tax without losing your night's sleep

The CRA offers many cash benefits to low and mid-income earners like goods and service tax returns and Canada Child Benefit. You can use these tax-free cash benefits and invest some of them in the Tax-Free Savings Account (TFSA). The CRA exempts TFSA investment income and withdrawal from taxes. You can invest this money in dividend stocks, and the passive income you earn every year from it can relieve some of your tax burdens.

Telus Corporation (TSX:T)(NYSE:TU) has the second-largest communications infrastructure in Canada. It operates at a 24% adjusted EBITDA margin. It increased its dividend at a compounded annual growth rate (CAGR) of 11.6% in the last 10 years. During this time, the stock surged 122% because of growth in digital healthcare and agriculture technology.

It recently launched TELUS Global Connect that will allow its internet of things (IoT) customers to customize and manage cellular IoT device connectivity worldwide. The 5G revolution will lead the way to cloud virtualization and IoT device proliferation, accelerating growth for all business segments of Telus.

It has a dividend yield of 4.68%. A $2,000 investment in Telus will earn you $93.6 in annual dividend. If it increases dividends at a 10% CAGR, your annual dividend income will grow to $220 by 2030.

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