Canada Revenue Agency: Do This to Pay Less Tax in 2021

Description

Tax season is here. With the deadline for 2020 RRSP contributions having passed and the tax deadline just around the corner, it's time to get filing. Yet there's enough time left before the deadline to work on tax reduction. There's still about a month and a half until you need to have your tax returns sent to the Canada Revenue Agency, which leaves plenty of time to find any deductions and credits that could help you out. With that in mind, here are three strategies to help you pay less tax in 2021.

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First tip: Hire an accountant

The first step in lowering your taxes is hiring an accountant. Everybody knows that taxes and credits can lower their tax bills. Not everybody knows exactly which credits and deductions they're entitled to. Sometimes, claiming deductions can be complex. Business assets like computers often have to be depreciated, and other deductions have caps on the amount. In all of these matters, an accountant can help you out. So, speak with a CPA if you haven't already. It could save you big time come April.

Second tip: Claim work-from-home deductions

A second step you can take toward lowering your taxes is claiming work-from-home tax deductions. If you were forced to work from home because of COVID, you can claim $2 for every day you worked from home up to a maximum of $400. This deduction is pretty straightforward, so you won't need professional help to claim it.

Third tip: Invest in RRSPs and TFSAs

A final tax saving tip is to invest as much money you can in RRSPs and TFSAs. Both give you immense tax benefits:

- RRSPs give you a tax deduction for depositing money and let you grow the money tax free. The money does become taxable on withdrawal, though.

- TFSAs let you grow *and* withdraw your money tax-free.

By investing in these accounts, you can save big money come tax time.

We can use a simple example to illustrate just how much money you could save by holding stocks in a TFSA.

Let's imagine that you held $50,000 worth of **Fortis** (TSX:FTS)(NYSE:FTS) shares in a regular taxable account. A $50,000 position in Fortis pays about $1,900 in dividends each year, thanks to the stock's 3.8% dividend yield. That's $1,900 in taxable income right there. Even in a taxable account, you'd save some money on those dividends because of the tax credit. But in a TFSA, you'd be guaranteed to pay $0. You also have to think about capital gains. If you realized a 20% gain on your Fortis shares, you'd have a $10,000 total gain. $5,000 of that would be taxable. At a 33% marginal tax rate, the tax would be about $1,600. In a TFSA, it would be $0.

So, as you can see, you save big on taxes by investing in a TFSA. That doesn't mean you should rush out and start buying TFSA investments when you have more pressing financial concerns. But it is one way to lower your taxes if you're set on investing one way or the other.

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