



Did You Turn 65? The CRA Makes Big Changes to Your 2020 Income Tax Returns

Description

It is tax season, and the Canada Revenue Agency (CRA) is making many changes to your 2020 income tax returns. And if you turned 65 last year, then you will see more changes to your returns. You might want to look into the changes to avoid any unpleasant surprises to your tax bill.

According to the government, 65 is the age of retirement. Hence, the CRA and Service Canada give you many cash benefits, like a pension, that can supplement your working income. But you can continue working post 65 and delay the pension till 70. That is about cash benefits. But the CRA also makes changes to your tax benefits that you can't delay. Let's go through all the changes in a systematic order starting with taxable income.

The CRA makes changes to your 2020 taxable income

If you are still working, your working income will be a part of your taxable income and reflect in the T4 slip.

For the 2020 tax year, the CRA offered many COVID-19 benefits, like the Canada Emergency Response Benefit (CERB) and the Canada Recovery Benefit (CRB). These benefits had no upper age limit. A 65-year-old Canadian who earned at least \$5,000 in 2019 and lost their job because of the pandemic got the CRB. If you received these benefits, they will be added to your taxable income and be [reflected](#) in your T4E slip.

As you turn 65, you become eligible to claim pension and retirement savings. You may no longer contribute to the Canada Pension Plan (CPP). However, you can claim the CPP payout and the government-funded Old Age Security (OAS) along with the CRB. You can also withdraw from your Registered Retirement Savings Plan (RRSP). All these are supplements to your working income to help you retire smoothly. They will form a part of your taxable income. If you are working post 65, I would suggest you delay these payouts till 70.

The CRA makes changes to your 2020 tax benefits

Apart from cash benefits, the CRA offers you an age amount tax credit if you turn 65. This is in addition to your basic personal amount (BPA) credit. For 2020, you can reduce your federal tax bill by \$1,984 in the BPA tax credit and an additional \$1,146 in the age amount tax credit.

However, your age amount [tax credit](#) will start phasing out if your 2020 net income is between \$38,508 and \$89,421. Beyond this threshold, you can't avail of the credit.

Other than this, you cannot claim the new Canada training credit, which the CRA started in 2020. The \$250 refundable credit is for the age group of 26-65. The CRA introduced this benefit to encourage Canadians to take up courses that can enhance their occupational skills and help them earn more. But after 65, the CRA encourages Canadians to retire rather than work more.

How to create a tax-free retirement income

All pensions and retirement income form a part of your taxable income. But you can create a tax-free retirement income through your Tax-Free Savings Account (TFSA). You can open a TFSA now and invest up to \$75,500 (accumulated contribution carryforwards since 2009). This contribution will be taxed, but after this, the CRA won't touch your incomes or withdrawals from the TFSA. You can decide a ratio that best suits you and invest it in dividend stocks, ETFs, and a small percentage in growth stocks.

The pipeline operator **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)) is giving a dividend yield of 6.09%. If I convert it in dollar terms, a \$30,000 investment will give \$1,827 in dividend income by the end of this year. And if TC Energy maintains its history of growing its dividend per share at an average annual rate of 6%, your tax-free dividend income could grow to \$3,086 by 2030.

TC Energy's Keystone XL pipeline project has been suffering from headwinds, as the U.S. government opposes the project. If the project gets terminated, it will have a significant impact on the company. But TC Energy has many more mega projects coming in the next few years that will keep its cash flowing and dividend coming.

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