



CRA's \$3,130 Tax Benefits for 2020: No Senior Left Behind

Description

The pandemic impacted every Canadian somehow. But the most vulnerable segment was the seniors, as they were at a high risk of contracting the virus. Many seniors were forced to retire or could not get a job. While the February [unemployment rate](#) fell to its lowest level (8.2%) since March 2020, there was little growth in employment among people aged 55 and older in four months. Seniors who took early retirement or voluntarily quit their job did not qualify for the \$2,000/month in COVID-19 benefits. While the COVID-19 benefits left these seniors behind, two Canada Revenue Agency (CRA) tax benefits left no senior behind.

The benefits of being a senior

The CRA has set the official retirement age at 65. But there are still many people working past that age. Some are working because they have a loan to repay, some don't have enough retirement savings, and some are working just because they love their jobs. Look at Warren Buffett. He is 90 and he still says that he is too young to retire.

Whether you want to work or retire after 65 is your call to take. But the CRA will give you some benefits that can make this new phase of your life easy. The CRA gives you a basic personal amount (BPA) tax credit when you start filing taxes (at 19 years old). As there is no maximum age limit on this credit, you can continue to claim it, even if you are not working and all your income is from the pension.

For 2020, you can claim \$1,984 in the BPA tax credit if your taxable income is less than \$150,473. If you received the Canada Emergency Response Benefit (CERB) of up to \$14,000, the BPA credit will take care of the CERB federal tax bill. Even if you are a billionaire, you can claim up to \$1,845 in BPA tax credit.

The CRA gives you an additional age amount tax credit when you turn 65. Here again, there is no maximum age limit. So, you can claim this credit, even if you live past 100. For 2020, you can reduce your federal tax bill by \$1,146 if your income is below \$38,508. After this, your tax credit starts phasing out at 15% of your surplus income and becomes zero when your income reaches \$89,421.

The CRA gives one more benefit to leverage the above benefits

Age is just a number after you turn 19, as you get most of the CRA benefits till your last breath. One such benefit is the Tax-Free Savings Account (TFSA). The CRA created this account in 2009 to inculcate savings culture among Canadians. Like the BPA, the only eligibility to open a TFSA is you must be over 18 years of age and a Canadian or a resident of Canada.

Every year, the CRA sets a TFSA contribution limit, on which you don't get any tax benefit, but whatever income you earn in the TFSA is tax-free. Even if your \$1,000 contribution becomes \$10,000, the CRA won't tax you on the \$9,000 investment income and withdrawal.

Your senior age is an advantage, as the CRA allows you to carry forward annual contributions from 2009 even if you open a TFSA now. This means you can contribute up to \$75,500 in 2021.

How to monetize the TFSA limit

You can leverage the \$75,500 TFSA limit and transfer any lump sum savings in [dividend stocks](#) like **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). The stock has been tested through times; it handled the 2009 financial crisis and the 2014 oil crisis. Growing dividends since 1995 at an average annual rate of 10%, the stock has proved its resilience. Even in the pandemic, the worst crisis of the 21st century, Enbridge increased its 2021 dividend per share by 3%.

As a senior, you might have seen Enbridge grow its pipeline infrastructure over the years. It survived and grew stronger. This is the right time to buy Enbridge shares, as you can lock a 7.2% dividend yield. A \$30,000 investment will give you \$2,160 in tax-free dividend income. Even if the company raises its dividend at an average of 5%, your TFSA pension will grow to \$3,355 by 2030.

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