2 Ways You Can Minimize Last Year's Taxes to the CRA

Description

There's little doubt that 2020 was a difficult year for almost everyone. A small percentage of the population suffered at the "hands" of the COVID directly, but a comparatively significant segment suffered its financial consequences. Businesses suffered from less consumer activity and interest. In order to cut costs, many companies let go of their employees, and hundreds of thousands of people suffered the loss of primary income.

It's not possible to redeem the financial losses and additional expenses you suffered during the pandemic (if any), but there is one way you can make the financial burden sting a little less, and that's by minimizing your taxes as much as you can by using all the tax write-offs for which you are eligible.

Home office tax credit

Millions of people worked from home in 2020, and relatively few of them are familiar with the fact that you can claim home office expenses when you are working from home, whether or not it's your "default" working model. If you worked from home for at least four consecutive weeks (at least 50% of the time), consider leveraging the flat-rate tax credit of $2 per day.

The most you'd be able to save is $400, using the flat-rate method, and it's a decent enough tax minimization that you shouldn't ignore.

A substantial write-off

If you are looking for a way that can help you shave-off thousands of dollars from your tax obligation, revert to the good old RRSP contributions. Someone earning $100,000 in Ontario can easily save over $5,000 by maximizing their RRSP contributions ($18,000). Not only would you be able to put more money towards your retirement, but you will also get a significant tax break in the present.

By itself, the $18,000 sum might not be able to grow much even if you leverage the power of compounding. But it can be significant even in a relatively conservative stock like the **Royal Bank of Canada**

(TSX:RY)(NYSE:RY). The largest bank in the country is a Dividend Aristocrat that currently offers a decent 3.9% yield with a 10-year compound annual growth rate (CAGR) of 11.1%.

Your $18,000 growing at this rate can turn into a $145,000 nest egg in about 20 years. If you buy the bank when it has dipped a bit and can lock in an attractive yield, you can turn it into a significantly large income-producing nest egg by opting for dividend reinvestment.

Royal Bank of Canada is expanding its reach internationally as well and tends to attract both customers and investors due to its inherent stability. Its growth prospects are promising.

Foolish takeaway

Accounting for every tax write-off you are eligible for can help you minimize your tax obligation quite significantly. The good idea is to start looking into tax breaks that are created for your specific situation. If you are a parent, you might be able to write-off a lot of childcare expenses. Similarly, people taking care of the elderly or family members with special medical needs get specific tax breaks as well.

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