CRA: These Investments Can Reduce Your Taxes Substantially

Description

It's tax season again, which means we're all grappling with the Canada Revenue Agency's (CRA) complex rules. This financial year has been particularly complicated because of the ongoing crisis. However, if you were lucky enough to retain your job or sustain your business in 2020, you may have a significant tax bill to face soon.

The CRA does allow you to reduce this burden to a certain degree. Sometimes, these incentives and tax savings are offered on investments. Here are two ways you can invest to reduce your tax liability.

CRA training tax credit

In 2020, the CRA created an education fund that helps offset the amount of money people use to train themselves or their employees. This means you could invest in your future by upgrading your skills *and* pay less taxes right away.

The CRA training tax credit is capped at $250 a year. However, the amount can also be accumulated for 20 years up to a maximum of $5,000. In other words, you could accumulate enough to invest in an online university course or get a professional certificate to boost your earnings.

RRSP

Of course, the training tax credit is not nearly as big as the Registered Retirement Savings Plan (RRSP). This program is designed to offset income taxes today so that you can save and accumulate wealth over the long term.

Pre-tax money is placed into an RRSP and grows tax-free until withdrawal, at which time it is taxed at the marginal rate. The amount you can invest depends on how much you earned the previous year.

Maxing out your RRSP contribution and investing it in robust dividend-growth stocks could be the best way to mitigate taxes while expanding wealth.

Investing your RRSP

Your RRSP should ideally be invested in a company with safe and steadily expanding cash flows. One of the top picks is **Fortis** (TSX:FTS)(NYSE:FTS).

Generating and distributing electricity is the definition of "essential services." Fortis barely saw a dip during the crisis last year. This year, the economic recovery and resumption in commercial activity should boost its sales further.

The stability of Fortis's cash flows allows management to plan shareholders rewards many years in advance. In fact, the company has boosted dividends every year for the past 46 years. Management has already claimed that dividends could keep expanding for the foreseeable future.

At the moment, Fortis offers a 3.7% dividend yield. Combined with the potential for dividend growth, this stock is an ideal addition to your RRSP. This investment could substantially reduce your taxes and help you generate wealth that the CRA can't touch for years.

Bottom line

The CRA's training tax credit and RRSP programs allow you to invest while reducing your tax burden. If you're eligible for the program and want to invest in skills or a dividend stock, use these programs to your advantage.

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