Canada Revenue Agency: 3 Tax Breaks That Will Reduce Your Tax Bill in 2021

Description

The deadline for paying your taxes is just a month away. Canadians need to pay their income tax by April 30, 2021. For self-employed residents, the deadline is June 15, according to the Canada Revenue Agency.

In order to lower your tax liability, the CRA provides residents with certain tax breaks. We'll look at three such deductions that you can leverage to lower your tax bill this year.

RRSP

Contributions towards your Registered Retirement Savings Plan (RRSP) are deductible and can lower your tax. Any income you earn in this registered account is also exempt from tax as long as the funds remain in the plan.

The deadline for RRSP contributions was March 1. You can contribute up to 18% of your total income towards the registered account. For example, if you earned $75,000 in total income last year, you can contribute $11,250 towards your RRSP.

This will lower your taxable income to $63,750.

Basic Personal Amount

All Canadian taxpayers can claim a basic non-refundable tax credit known as the Basic Personal Amount, or BPA. This amount is adjusted annually to allow for inflation and other factors. In 2020, the BPA for federal taxes was $13,229.

The federal government allows you to claim 15% of your non-refundable tax credits. For example, if Heather had a taxable income of $39,000 in 2020, the federal income tax amounts to $5,850 on this figure. She can claim 15% of $13,229, or $1,984.35, as her non-refundable tax credit via the BPA, lowering her tax bill to $3,865.35.

CPP contributions

Service Canada initiated the Canada Pension Plan (CPP) enhancement program in 2019. Service Canada aims to increase your CPP contribution rate as well as your pensionable earnings over the next seven years.

For 2020, the CPP contribution rate was increased to 5.25%. Your maximum pensionable earnings are $58,700, while the basic exemption amount is $3,500. So, for any individual earning above the maximum threshold amount of $58,700, the maximum CPP contributions for 2020 will be $2,898.

The Canada Revenue Agency allows you to deduct 15% of these contributions, which means you are eligible for a maximum tax credit of $434.7.

Canada Revenue Agency does not tax your TFSA returns

While the above-mentioned tax breaks can lower your liability, you can use these savings to invest in the Tax-Free Savings Account (TFSA). The TFSA is another registered account where any withdrawals in the form of dividends, interest, or capital gains are exempt from CRA taxes.

The maximum TFSA contribution limit for 2021 stands at $6,000. You can use this amount to buy and hold growth stocks such as **Docebo** (TSX:DCBO)(NYSE:DCBO) that have the potential to generate multifold returns over the long term.

The sell-off in the technology space has meant DCBO stock is currently trading almost 40% below its record highs, giving investors an opportunity to buy a quality stock at a lower valuation.

Docebo is an enterprise-facing e-learning company valued at a market cap of $1.7 billion. It offers a cloud-based AI (artificial intelligence) powered e-learning platform, where managers can improve their training program, boost efficiency, and reduce overall costs.

Analysts tracking Docebo expect the company to increase sales by 48.1% to US$93.2 million in 2021 and by 35.6% to US$126.4 million in 2022.

While the company continues to report an adjusted loss, it is expected to narrow its loss per share from $0.26 in 2020 to $0.02 in 2022.

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