CRA: 2 Important Changes to Your Paycheck in 2021

Description

COVID-19 had a terrifying impact on people worldwide in more ways than one. The effects were felt through economic, physical health, mental health, and financial conditions for Canadian families. While the situation is improving, the entire world is still grappling with the fallout from the global health crisis.

There is guarded optimism that 2021 will be far better than 2020. For the people working, the Canada Revenue Agency (CRA) has introduced important updates that can affect their lives, particularly in terms of their paychecks.

Two of the most significant changes introduced by the government agency are for the Basic Personal Amount (BPA) and the Canada Pension Plan (CPP). Both changes will affect your financial situation for the better. One will allow you to earn more money before you need to pay taxes, and the other will increase your retirement benefits.

Let’s take a closer look.

Higher tax-free BPA

The BPA is the amount you can earn up to before paying any federal income tax on your income. In 2019 and 2020, the BPA was $12,298 and $13,229, respectively. The CRA updated the BPA to increase it to $13,808. If you are a Canadian taxpayer, you can earn up to the new BPA before the federal government can collect taxes on your income.

Of course, there is the tax bracket threshold to consider before you get excited about the higher tax-free BPA. Your income in 2021 has to be below the 29% tax bracket ($151,978) to claim the full non-refundable tax credit through the higher BPA.

If your income is between the 29% and 33% tax bracket ($216,511), your BPA will be lower. The CRA is planning to increase the BPA for another year to bring it up to $15,000 by 2022.

CPP contribution rate

The second important update introduced by the CRA that will affect your paycheck is the CPP contribution rate increase. The employee and employer contribution rates for the CPP have increased for the third year in a row.

The contribution rates for employers and employees towards an individual's CPP have increased from 5.25% to 5.45%. The annual salary deduction per employee will be more substantial than it was last year due to the update. If you are a self-employed individual, your contribution rate will be 10.9%, because you will be contributing as both an employee and employer.

Learning that you will be taking home a lower amount from your paycheck might not seem ideal right now. However, this could be a great move for your finances during retirement. CPP pensioners receive monthly income from the fund based on how much they contributed from their active income. You can increase your CPP payments further by deferring the start of your CPP by the age of 70 to earn 42% more per month through the pension.

Supplement your active income

The pandemic has made many Canadians realize the value of creating multiple revenue streams. Some people prefer taking on part-time jobs to supplement their primary income source, while others look for passive revenue streams.

Investing in a portfolio of reliable dividend-paying stocks like **Enbridge** (TSX:ENB)(NYSE:ENB) and storing it in your Tax-Free Savings Account (TFSA) could be an excellent way to earn passive income without incurring any additional income tax. With a sizable enough dividend income TFSA portfolio, you can generate a substantial recurring passive income that can supplement your active income.

Enbridge is an excellent long-term stock pick to begin building a dividend income portfolio. The Canadian Dividend Aristocrat has a 26-year dividend-growth streak. Its highly contracted underlying business generates stable cash flows for the company and allows it to raise the payouts to its shareholders consistently.

The recovery in oil demand and improvement in economic activities due to the vaccination drive could improve its asset utilization rate and boost its cash flows in the coming months.

Foolish takeaway

Both changes by the CRA will impact your paycheck from this year. It is a win-win situation for all Canadians. Your pension payout and tax savings can grow together this year and beyond due to these updates. You can also earn additional income by creating a dividend income portfolio in your TFSA. Enbridge could be an excellent foundation for such a portfolio.

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