CRA: 1 Solid Way to Reduce Your Tax Bill in 2021

Description

It's tax season and it's not always easy when the Canada Revenue Agency (CRA) is nipping at your heels. Unfortunately, as much as we don't like it, taxes are a fact of life. Taxes help pay for our roads, hospitals, infrastructure, and helps ensure all Canadians have a reasonable standard of living. Of course, there are also reasons to grumble about how it is spent, but I won't get into that.

How to reduce your CRA tax bill in 2021

Fortunately, the CRA has actually made a way that Canadian investors can reduce their annual tax bill. It is not complicated and it is not a trick. It is simply setting up a Tax-Free Savings Account (TFSA) inside your online brokerage account.

When you invest in a non-registered account you have to plan to take on the task of reporting all your investment gains and losses for the year. Similarly, at tax time you have to sort through a bunch of forms like the T3 (trust income), the T5 (investment income), and the T5013 (partnership income). While I won't get into the ins and outs of these forms, just be aware that it can get a little complicated

Pay no investment tax in your TFSA

When you invest in a Tax-Free Savings Account (TFSA), you are liable for zero tax on any investment returns earned. So long as you abide by some very specific CRA rules, there is no reporting and you can just keep on building up your investment wealth year after year.

If you were 18 years old or older in 2009, you can actually contribute up to $75,500 total into your TFSA. Frankly, if you have space, why invest in a non-registered account at all? Well, that is up to you, your accountant, and/or your financial advisor. However, given that it is time to file your taxes, it is a good question to ask yourself.

The CRA created the TFSA for Canadians to build up longstanding savings and wealth. It is one of the best mechanisms the government has established for Canadians to literally compound and build up a great investment portfolio. If you want to lower your tax bill for 2021, this is a great place to start.

An all-around great stock for your TFSA

If I were to recommend a solid Canadian stock for your TFSA, **Brookfield Asset Management** (TSX:BAM-A)(NYSE:BAM) would be top of the list. It is one of the world's largest alternative asset managers.

It operates and manages funds and subsidiaries for institutional clients and public shareholders, like you and me. Owning this stock is like owning a broad portfolio of infrastructure, real estate, renewable power, private equity and debt-related businesses. In one stock you get a basket of some world-leading assets, and you don't have to manage any of them. It's a pretty great deal!

BAM has been rapidly increasing its assets under management. Last year, even despite the pandemic, it had its best fundraising year ever. In a low interest rate environment, institutional investors struggle to make money in bonds, so yielding alternative assets (like those BAM manages) are ideal solutions.

Don't mess with CRA, hold this stock in your TFSA

Brookfield has been known for spinning-off subsidiaries to shareholders. It is already planning to spin-off its reinsurance business to shareholder later on this year. However, BAM is also making new forays into impact investing and technology. Each of these funds could have spin-off potential eventually. These types of returns can make taxes somewhat tricky, so that is another reason to hold BAM in your TFSA.

Overall, this is just a great stock to hold for a long time. It has long and diverse runways for growth, which helps offset risk and position you for stable wealth generation. This stock is down 3% since yesterday, so today looks like a great time to start a position.

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