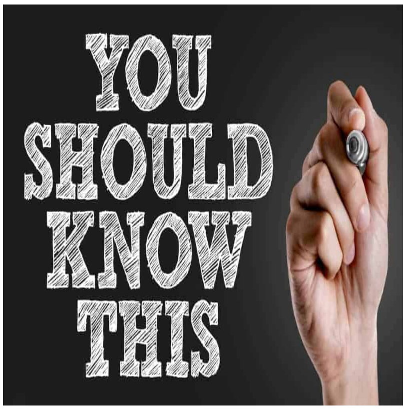

Got Your First Job? 3 Things You Should Know About Your Salary Deductions

Description

Is this your first job? Are you wondering about the deductions on your salary slip? The Canada Revenue Agency (CRA) and Service Canada require employers to make some necessary salary deductions for every person working in Canada. With these deductions, the government starts financial planning on your behalf from your very first salary and continues it till your last salary.

There are three deductions:

- Canada Pension Plan (CPP) to help you start saving for your retirement,
- Employment Insurance (EI) premium to help you cope with unemployment, and
- Income Tax (IT) to help you avoid a hefty tax bill at the end of April.

The CPP component in salary deductions

For 2021, your employer will deduct 5.45% from your salary in contribution towards the CPP. The maximum pensionable earnings stand at $61,600. Your CPP contribution is calculated on the amount that you earn above $3,500. Thus, your employer can deduct a maximum of $3,166 in CPP contribution in 2021.

The EI component in salary deductions

The Canada Employment Insurance Commission (CEIC) has set the employee's EI premium rate at 1.58% for 2021, the same as 2020. But it has raised the amount of maximum insurable earnings to $56,300. Your employer can deduct up to $889.5 from your salary towards EI contributions.

The IT component in salary deductions

For 2021, you will be taxed at a federal rate of 15% on the first $49,020 of your earnings. No matter how small your earnings are, you are required to pay the minimum federal tax of 15% on your annual income.

I will explain these deductions with the help of an example. Mary, who lives in Toronto, completed her graduation last year. She started working recently and earns $49,000 in 2021. Her employer will deduct around $2,480 (5.45% of $45,500) towards the CPP contribution. Further, $774 (1.58% of $49,000) will go toward the EI premium payment. After these deductions, Mary's net salary amounts to $45,746 ($49,000 – ($2,480+$774)). Since Mary's annual income falls in the first tax bracket, a federal income tax rate of 15% will apply to her earnings.

Start planning your finances early

While the government does plan your finances, they are not sufficient. You need to do your planning as well. Create a Tax-Free Savings Account (TFSA) portfolio, with a mix of growth and dividend stocks, exchange-traded funds (ETF), and mutual funds. One good growth stock worth considering is **Magna International** (TSX:MG)(NYSE:MGA). The company is among the world's largest auto component suppliers and third-party automotive manufacturers.

As more countries accelerate their efforts to reduce carbon emission, electric vehicles (EV) have come up as a viable alternative to gasoline cars. Moving with the trend, Magna has shifted its focus to EVs. It has partnered with several automakers and tech companies to manufacture EVs. It is among the few companies that can integrate domain controllers, radar, LiDAR, and cameras, making it the best partner for autonomous vehicles (AV) too. Its driver-assistance system is used in more than 250 vehicle models. Hence, it will also benefit when the AV revolution kicks in.

A dividend stock you can look at is **Enbridge** (TSX:ENB)(NYSE:ENB). The company has the largest pipeline infrastructure in North America. In the past, it has increased its dividends at 10% per annum on average. Even after the COVID-19 pandemic, Enbridge increased its dividend by 3% in 2021. This shows that the company's pipeline infrastructure provides it with a regular flow of cash.

Enbridge currently has a dividend yield of over 7%. By the end of 2021, your $500 investment in the stock will earn you a dividend of $35. If Enbridge grows its dividend at an average annual rate of 6% for the next 10 years, this $35 will become $63 by the end of 2031. All this money is tax-free as you do not need to pay any tax on the income or dividend earned in your TFSA.

Final thoughts

Since you have just started working, it is a good idea to start your career by investing $500 in each of these stocks through your Tax-Free Savings Account (TFSA). The amount might not seem huge now, but it could reap significant benefits in the long term.

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