CRA: 3 Last-Minute Tax Tips to Save You Money

Description

It's getting close to the tax-filing deadline.

By April 30, you'll need to have your taxes done and sent to the CRA. If not, you face late-filing penalties.

This year, the federal government/CRA opted not to extend the tax-filing deadline, as it had done in 2020. As a result, you have no extra time to file your taxes this year.

So, you should aim to have your taxes filed by the end of this week. With that in mind, here are three quick tips for filing your taxes in 2021.

Tip #1: File on time

It always pays to file your taxes on time. The main reason is that when you file your taxes late, you have to pay penalties. Specifically, you'll pay a 5% penalty on your balance owing, plus 1% per month for any additional month late. If you don't owe any taxes, you won't be subject to this penalty. However, you can get hit with other fees and penalties if you're not careful.

Another reason it pays to file your taxes on time is because filing early means you'll get your tax refund early. If you're like most Canadians, you look forward to receiving a tax refund every year. The longer you wait to file, the longer you'll have to wait on your refund. So, paying your taxes on time can help you get your refund money sooner.

Tip #2: Keep good financial records

A second tip for filing taxes is to keep good records. Many Canadians are entitled to various deductions, credits, and other benefits throughout the year. If you claim these and don't keep records (e.g., receipts), then they won't hold up on audit. So, make sure you keep good records of all your deductible/creditable purchases. It could help you out immensely later.

Tip #3: Invest in a TFSA

A final tax tip is to invest in a TFSA.

This won't specifically help you for the 2020 tax year but will help you for future years.

Investments in general are subject to a variety of taxes, including

- A capital gains tax: a tax on 50% of your capital gain; and/or
- A dividend tax: a tax on dividends, usually subject to a 15% credit and a 38% gross-up (depending on the stock).

Taken together, these taxes can be considerable.

Let's imagine that you held $50,000 worth of **Fortis** (TSX:FTS)(NYSE:FTS) stock. Fortis is a dividend stock with a 3.7% yield. At that yield, you get $1,850 in annual income on a $50,000 position. The taxes on that could be substantial. Yes, you'd save money with the dividend tax credit, but, in most cases, the credit would not reduce your taxes to zero.

The TFSA would. And it's the same story with capital gains. If you realized a 20% gain on your $50,000 worth of Fortis shares, you'd have a $10,000 capital gain. $5,000 of it would be taxable. At a 30% marginal tax rate, you'd pay $1,500 on that. Unless, of course, you held the position in a TFSA. Then you'd pay $0 in taxes. So, by all means, invest in a TFSA if you have the contribution room. It can save you a lot of money in the long run.

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Date
2025/09/11
Date Created
2021/04/27
Author
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