



Do You Live and Work in Canada? Here's How to Earn a \$2,000 Tax Credit

Description

In the most recent tax season, people who live and work in Canada took advantage of the various tax credits available to them for the 2020 income year. While 2022 is still far off, it wouldn't hurt to know your potential tax credit for the 2021 income year.

Claim your enhanced BPA

A taxpayer whose income in 2020 was \$150,473 or less would have reduced the tax bill or derived a tax credit of nearly \$2,000. Since the enhanced basic personal amount (BPA) is ongoing and will be in effect until 2023, the maximum amount will increase every year.

If you're a Canadian taxpayer, you can earn up to the new BPA before the federal government collects taxes on your income this year. For the 2021 income year, the new BPA is \$13,808, or \$579 higher than in 2020. However, the income threshold will also change.

Income threshold

Your net income should be \$151,978 (29% tax bracket) or less to claim the maximum BPA of \$13,808. The tax credit for the 2020 income year because of the first year of the BPA enhancement was \$1,984. If the minimum federal tax is 15%, your potential claim for the income year 2021 arising from the increased amount is \$2,070 ($\$13,808 \times 0.15$).

Note that as your income goes higher, the BPA gets smaller. If your net income in 2021 is more than \$151,978, the amount reduces until it reaches the 33% income tax bracket. Should your income exceed \$216,511, the BPA amount goes down to \$12,421.

Seniors' age credit

The age tax credit is available to Canadians above 65. The Canada Revenue Agency (CRA) computes

this non-refundable tax credit the same way it computes the BPA tax credit. In 2021, the age amount is \$7,637 if net income is \$38,508 or less. Thus, the estimated tax credit is \$1,145.55 (\$7,637 x 0.15). The amount also reduces if income is more than \$38,508 but less than \$89,422.

A lifetime of passive income

Apart from the tax credits due to the BPA, Canadian taxpayers can create non-taxable income through the Tax-Free Savings Account (TFSA). The younger ones can build their retirement savings over time, while seniors can use the TFSA to offset the Old Age Security (OAS) [clawback](#).

Among the friendliest income stocks on the TSX is **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). Canada's oldest financial institution is also the dividend pioneer. The \$82.16 billion bank hasn't missed paying dividends since 1829. Suppose you invest today; the share price is \$126.92, while the dividend yield is 3.34%.

Assuming you buy \$13,808 worth of BMO shares and hold it in your TFSA, the tax-free quarterly dividend would be \$115.30. If you keep reinvesting the dividends, your investment will compound to \$26,637.90 in 20 years. Thus far in 2021, BMO outperforms the TSX (+33.78% versus +15.52%).

Over the last 48.36 years, BMO's total return is 27,703.14% (12.34% CAGR). The credentials of Canada's fourth-largest bank should give you the confidence to invest. You can earn [a lifetime of passive income](#) if you buy and hold the bank stock today.

Available to all individual taxpayers

All individual taxpayers in Canada can claim the BPA. The non-refundable tax credit is a great way to reduce federal income tax, fully or partially, every income year. Earning a pension-like from Bank of Montreal wouldn't hurt either.

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Author

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