Retirees: 3 Big Tax Breaks You Might Not Be Aware of in 2021

Description

Canadian retirees can’t raise the white flag of surrender when it comes to taxes. There are tax breaks available to reduce taxes in the income year 2021. Those with free cash can also buy dividend stocks to hold in tax-sheltered or tax-exempt investment accounts.

1. Tax-free BPA

The maximum federal basic personal amount (BPA) for the 2021 tax year has increased by $579 from $13,229 in 2020. Thus, the first $13,808 of your income for this year is tax-free. A taxpayer can enter the new BPA provided the total income from all sources does not exceed $151,978.

2. Medical expenses

Medical expenses will inevitably increase as you grow older. The CRA allows seniors or retirees to claim a wide range, including prescription medication costs and doctor or professional fees. Even cash outlays such as air conditioning or breathing devices qualify. Visit the CRA website to know what other obscure medical expenses are eligible.

List all medical-related expenses and keep the receipts as supporting documents. For 2020, the non-refundable tax credit was 3% of net income or $2,397, whichever is lower.

3. Age amount tax credit

The non-refundable age amount tax credit is specific to Canadians who are 65 or older at the end of the taxation year. The CRA uses the lowest federal tax rate to compute this tax credit. For 2021, the maximum amount is $7.713. However, the tax agency will claw back 15% if net income exceeds the threshold of $38,893.

Contribute to your RRSP

Contributing to the Registered Retirement Savings Plan (RRSP) can reduce tax payables further. You can deduct RRSP contributions from your taxable income. Many seniors withdraw the money when they're in a lower tax bracket to pay lower taxes.

Stingray Group (TSX:RAY.A) is an affordable dividend stock. It trades at $7.31 per share and pays a 4.32% dividend yield. The commercial operations of this $535.56 million global music, media, and technology company are returning to normal. While net income dropped 40% in Q1 fiscal 2022 results (quarter ended June 30) and dropped 40.2% versus Q1 fiscal 2021, revenue and streaming subscribers increased by 23.9% and 31.2%.

According to management, the top priorities of its capital-allocation strategy are M&As then debt reduction. Market analysts are bullish and recommend a strong buy rating. They predict upside of between 26% and 34.9% in the next 12 months.

More tax relief

Many seniors also use their Tax-Free Savings Account (TFSA) to limit or negate the impact of the OAS clawback. Investment income from Canada's second-largest telco is tax-free. **TELUS** (TSX:T)(NYSE:TU) is an ideal holding in a TFSA because the business is enduring.

At $28.16 per share, the $38.59 billion company pays a 4.46% dividend. The payouts should be safe and sustainable, as TELUS generates $16 billion in annual revenues. Expect TELUS to be at the front and centre of the 5G network rollout in Canada. Management's $40 billion investment over the next three years in critical technology components to support 5G networks should drive digital development across industries.

Start tax planning early

Canadian retirees have tax deductions they can deduct directly from income before calculating taxes. Tax credits they can subtract from taxes owed to the CRA are also available. The next tax season is far away, but it would be best if seniors can start tax planning as early as now.

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