CRA: Big Changes Coming to 2022 Tax Breaks

Description

Canada's inflation surged 4.7% in October, its largest gain in 18 years. The primary cause of inflation was sky-high energy and house prices. To tackle inflation, the Canada Revenue Agency (CRA) increases the 2022 tax breaks after adjusting for inflation, which is called indexation. In the light of high inflation, the CRA increased its indexation rate to 2.4% for 2022 from 1% last year. This increased indexation will bring a big change to your tax bill in the 2022 tax year.

Big changes in 2022 tax breaks

The CRA offers three benefits to every Canadian:

- Basic personal amount (BPA) tax credit
- Minimum taxable amount
- Age amount tax credit

All three amounts will increase significantly in 2022. Here I will discuss how much tax benefit they will bring to you.

- The CRA increased BPA by $590 to $14,398 for 2022, on which the minimum federal tax rate of 15% won't apply. This will save you $2,160 (15% of $14,398) in the federal tax bill, provided your 2022 taxable income is less than $155,625.
- The CRA has also increased the minimum taxable amount by $1,177 to $50,197. If your taxable amount is below this threshold, a 15% federal tax rate will apply.
- If you are above 65 years of age, the CRA offers you an age amount tax credit. The CRA has increased the 2022 age amount by $185 to $7,898, which will reduce your federal tax bill by $1,185 (15% of $7,898).

For instance, Emma's 2021 and 2022 taxable income remains unchanged at $50,197. The above three tax breaks would reduce her federal tax bill by $302. There are many more tax credits Emma can use to reduce her tax bill. But I will leave that discussion for some other day.

Make the most of the 2022 tax breaks

The 4.7% inflation has significantly reduced your real returns on investment. Most dividend stocks give an average yield of 6%, and after deducting inflation and dividend tax, the real return is almost negligible. Hence, it is important to plan your investment portfolio that can beat inflation while being tax-efficient.

For tax efficiency, you might want to consider investing through the Tax-Free Savings Account (TFSA) as the CRA exempts all investment income in TFSA from taxes. That removes the tax element from your dividend income. Now for inflation, real estate and energy stocks are a good choice. They increase their rates along with inflation, making them an ideal inflation hedge.

Three stocks that beat the 4.7% inflation

Enbridge (TSX:ENB)(NYSE:ENB) stock surged 5.85% in October as oil and gas demand surged significantly. The company increases its toll rate periodically in line with inflation. More volumes at higher toll rates increased its distributable cash flow (DCF) by 9.5% in the latest quarter. Enbridge uses the DCF to grow dividends. The stock has an average dividend yield of 6% and is likely to announce a 3-5% dividend growth in December.

The winter season will increase energy demand and push Enbridge's stock up 8-15% on seasonal rallies. Hence, it is my stock pick if you want to hedge your returns against inflation.

SmartCentres REIT (TSX:SRU.UN) is another stock that surged 5.36% in October as house prices surged. The REIT largely deals in the retail sector but is expanding into residential and commercial properties. It has a portfolio of mixed-use properties, some of which it sells and some of which it rents out. It increases rent every year in line with inflation. Unlike Enbridge, it doesn't increase dividends annually, but a 6% dividend yield ensures regular income. When inflation increases, the increase in stock price offsets the impact of inflation on stock returns.

Canadian Utilities (TSX:CU) is one of the key beneficiaries of inflation as energy prices surged, and it passes on this increase to customers. The stock surged 6% in October on the back of strong cash flows from inflated energy prices. It maintained a 5% average dividend yield. Here again, the capital appreciation compensated for the decline in real return on the dividend.

Among the three, two are energy stocks, which saw a correction in November, opening a window to buy these stocks before they begin the winter season rally.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)

2. TSX:CU (Canadian Utilities Limited)
3. TSX:ENB (Enbridge Inc.)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. arosenberg
2. pujatayal

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/20
Date Created
2021/11/19
Author
pujatayal