



RRSP: How to Reduce Your 2021 Tax Bill in January 2022

Description

The 2021 tax filing deadline is approaching, and saving taxes is on everyone's mind. With those 2021 fiscal stimulus checks added to your taxable income, plus inflation at a 13-year high, a huge tax bill might give you goosebumps. With December 31, 2021, a history, you might think there is nothing much you can do now to save taxes. But the Canada Revenue Agency (CRA) gives you a chance to save tax on \$27,830 in income through a Registered Retirement Savings Plan ([RRSP](#)).

How to reduce your 2021 tax bill

The CRA allows you to deduct the contribution to an RRSP from your taxable income. But like everything that has a tax benefit, it has an upper limit. You can invest up to 18% of your earned income in the previous year or \$27,830, whichever is lower. To be eligible to meet the [maximum RRSP contribution](#), your annual income has to be above \$154,000. This contribution can save you over \$7,300 in federal taxes. You can also carry forward your RRSP limit to next year.

If you withdraw from the RRSP before age 71, your financial institution will deduct a 10%-30% withholding tax. Moreover, you have to add the withdrawal amount to your taxable income for that year. For instance, if Joey withdraws \$5,000 from his RRSP in 2021, he will get \$4,500 (after his bank deducts 10% withholding tax). He will have to add this \$4,500 to his 2021 taxable income. There are many tax-efficient ways to withdraw from an RRSP. But I will leave that discussion for another day.

The pressing issue at hand is saving taxes in the present day.

Convert \$7,300 RRSP tax savings into \$73,000

Many Canadians do not invest in an RRSP because of the withholding tax and they would rather pay that \$7,300 tax bill. But the tax money, once gone, won't come back. Whereas if you save tax today and invest in some good growth stocks through an RRSP, you can convert it into \$73,000 in 10 years.

The CRA exempts any investment income in an RRSP from the capital gains tax, dividend tax, or

income tax. This helps investment income compound pre-tax and grow faster. When you withdraw funds in the future, you will still have more after-tax money after adjusting for inflation. So the question is how to grow your RRSP funds tenfold. For that, you need a stock portfolio that gives you a compounded annual growth rate (CAGR) of 26%.

- **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#))
- **Magna International** ([TSX:MG](#))([NYSE:MGA](#))

Shopify stock

Shopify stock surged 271% in the last two years as the pandemic acted as a growth catalyst and gave a glimpse of e-commerce 10 years from now. But the catalyst effect is cooling, and the company's growth is normalizing. Shopify stock has dropped 35% from its November 2021 high of \$2,140. But the e-commerce wave is here to stay. The only difference is the gains are normal, rather than a windfall. A 20%-25% annual growth rate seems achievable for a stock that is giving **Amazon** competition in the e-commerce space.

Shopify could grow your money severalfold in the next five to seven years, provided it gains market share as it battles competition.

Magna stock

Magna is the third-largest auto component supplier and third-party auto manufacturer, catering to names like **Toyota** and **BMW**. It is well-placed to benefit from the upcoming growth trends of electric vehicles (EVs) and autonomous vehicles (AVs). Fortune Business Insights forecasts the EV market to increase at 24% CAGR through 2028. With the industry growing at 24% CAGR, stocks of market leaders might meet or surpass the industry growth level.

Magna could become the **TSMC** and [Foxconn of EVs](#). Magna stock surged 500% in the last 10 years. But it has stronger growth potential in the coming 10 years as it rides the EV wave. The automotive industry suffered from a semiconductor supply shortage in the second half of 2021. This pulled the stock down as much as 23%. But now, the share is reclaiming growth, surging 18% since November 30, 2021. This is a good time to buy the stock before it becomes too expensive. The majority of the growth will come in the next two years as EV momentum picks up.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:MG (Magna International Inc.)
4. TSX:SHOP (Shopify Inc.)

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