3 Ways Canadians Can Reduce Their Tax Bill in 2022

Description

Most Canadians will have to file their taxes for 2021 by May 2, this year. While Canada is one of the most heavily taxed countries in the world, there are a few ways by which you can reduce your tax bill significantly. Let's look at three tax breaks offered by the Canada Revenue Agency for 2022.

Basic Personal Amount

A non-refundable tax credit, the Basic Personal Amount, or BPA, can be claimed by all Canadians. The primary intention of the BPA is to provide a full reduction from federal income taxes to individuals with a taxable income below the threshold. The tax credit also provides a partial reduction to Canadians with a taxable income above the BPA.

The BPA for the 2021 taxation year is $13,808, which will reduce your tax bill by $2,071 (15% of $13,808).

RRSP

One of the most popular retirement vehicles for Canadians, the RRSP (Registered Retirement Savings Plan) is an investment and savings account that can hold a number of qualifying investments ranging from stocks, ETFs, mutual funds, and bonds.

Any contributions towards your RRSP are tax deductible, and you can contribute up to 18% of your annual income towards this registered account. The maximum contribution limit for the RRSP is capped at $27,830 for 2021. So, if you earned $100,000 in the last year, you could contribute $18,000 towards your RRSP, which means your taxable income will now be $82,000.

Medical expenses

It's quite possible that your medical bills have increased amid the ongoing pandemic. The upper limit for the medical expense tax credit was raised to $2,421 for 2020. So, you can claim up to 3% of your net income or $2,421 (whichever is lower) as a tax credit for medical expenses. There is a wide range of eligible medical expenses that can be used to lower your tax bill.

While the tax breaks will increase your savings and boost your liquidity position in the near term, it's advisable to allocate a significant portion of these savings towards purchasing blue-chip stocks such as **Constellation Software** (TSX:CSU).

The bull case for Constellation Software

One of Canada's largest technology companies, Constellation Software is valued at a market cap of $43 billion. Constellation Software provides software and services to enterprises across industries. It acquires, manages, and builds companies that develop mission-critical software, which results in strong customer retention rates as well as high switching costs.

The companies that are acquired derive consistent profits and generally operate on a subscription-based model, allowing CSU to generate stable cash flows in good times and bad.

It has increased revenue from $3 billion in 2018 to $5.1 billion in 2021. Analysts forecast sales to touch $6.52 billion in 2022 and $7.76 billion in 2023. Comparatively, its adjusted earnings are expected to rise from $35.06 in 2021 to $68 in 2023.

We can see that CSU stock is valued at a forward price-to-sales multiple of 6.6 and a price-to-earnings multiple of 42, which might seem steep. However, a quality growth stock commands a premium. Further, CSU is down 16% from all-time highs, allowing you to buy the dip. In the last 10 years, the stock has returned over 2,000% to investors.

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