More Than $2,160 of Tax Savings in 2022 You May Not Know You Have

Description

What would you do with tax savings of thousands of dollars? Well, this is what some Canadians are getting in 2022, starting with the tax savings from the basic personal amount (BPA). Let's take a look at how you could save and how that money can work for you.

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Tax savings of $2,160 from the BPA

Individuals can claim a tax credit from the BPA. A Canadian can earn the BPA amount without paying any federal income tax.

In 2022, the BPA is $14,398. Since the lowest federal personal income tax rate is 15%, it means the tax credit is worth nearly $2,160! Because it's a non-refundable tax credit, you only earn the maximum tax savings of about $2,160 if you otherwise would have paid that much tax in the year. That is, the tax credit is used to offset tax liability. Canadians won't get a tax refund in the difference if they are paying lower federal income taxes than $2,160.

The BPA will increase every year and reach $15,000 by 2023. After that, it will be indexed to inflation.

Are you maximizing your TFSA?

Good job if you're already using a Tax-Free Savings Account (TFSA). A 2020 study performed by **BMO** Financial Group indicated that 68% of Canadians had a TFSA. However, "many are not taking full advantage of them, are underutilizing TFSAs and leaving money on the table." And that "on average, Canadians [were] holding $30,921 in their TFSAs."

If you still have room in your TFSA, you're not maximizing your tax savings. Every year, eligible Canadians get more TFSA room. If you made TFSA withdrawals before, the amount withdrawn is added back to your TFSA room in the following calendar year.

Cash, GICs, bonds, stocks, ETFs, mutual funds are all eligible to be held in your TFSA. If you have a long-term investment horizon and can stomach the risk, consider investing in stocks or equity ETFs for greater returns potential. Online brokerages and the availability of investment information in the internet age make it as easy as ever for anyone to invest.

If a TFSA account with a balance of $30,921 earns 7-10% this year in the stock market, that's a tax-free return of $2164 to $3092. If returns were reinvested in the TFSA, the tax-free fund will snowball to an impressive sum years later, especially, if you keep maximizing your TFSA with full contributions annually.

Are you working from home?

Some employees have no choice but to work from home because of the pandemic. You can use the temporary flat rate method to calculate home office expense deductions. Under this method, you can claim $2 for every day you work from home due to the pandemic. You can claim up to $500 of home office expenses this year. This reduces your overall taxable income, which results in lower income tax paid. How much tax savings you get depends on your tax bracket.

With the tax savings you get from these three methods, you can grow your retirement fund to a considerable amount. The idea is to save and invest regularly. Whenever you get extra savings, consider investing the amount. If these methods save you $3,000 every year and you invest and compound the savings annually at 7-10%, you'll arrive at $41,449 to $47,812 in 10 years, $122,986 to $171,825 in 20 years, and $283,382 to $493,482 in 30 years.

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