1 CRA Tax Break That Could Save You More Than $2,200 In 2023

Description

There are several ways by which Canadians can lower their tax bill each year. The Canada Revenue Agency (CRA) offers tax breaks that can increase Canadian's annual savings. One such non-refundable tax credit is the Basic Personal Amount or BPA, which can be claimed by all individuals.

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What is the Basic Personal Amount?

The Basic Personal Amount provides a reduction in federal income tax for those with taxable income below the BPA. For residents with taxable income above the BPA, the tax credit provides a partial reduction.

Typically, a non-refundable tax credit reduces your liability, and the BPA is adjusted annually to factor in inflation. In 2021, the BPA stood at $13,808, and it will be increased to $15,000 in 2023.

The federal government allows residents to claim 15% of total non-refundable tax credits. By leveraging the BPA tax credit, you can lower your tax bill by $2,250 (15% of $15,000) in 2023. As the BPA is a non-refundable tax credit, you won't receive a refund if the amount is larger than the taxes owed to the CRA.

Use savings from the BPA to buy blue-chip TSX stocks

Now that you can save more than $2,250 annually, it's advisable to utilize these savings to invest in the equity market. While stocks are trading at a depressed valuation, the ongoing sell-off provides investors with an opportunity to buy the dip and benefit from outsized returns over time.

One such beaten-down blue-chip stock trading on the **TSX** is **Toronto-Dominion Bank** (TSX:TD). Currently, TD stock is trading 18% below its all-time highs, increasing its dividend yield to a tasty 4.1%. An investment of $2,250 in TD stock right now will allow investors to generate $92.25 in annual dividend income.

In the past 20 years, TD stock has returned a staggering 1,160% to investors after adjusting for dividends. Further, these payouts have increased by 9.7% annually during this period, showcasing the resiliency of the banking giant.

Among the largest companies on the TSX, TD remains a compelling bet for long-term investors in 2022. TD is the second largest bank in Canada in terms of net assets, net income, and market cap. It is also the largest bank in terms of total deposits.

While the banking industry is cyclical, the Canadian banking sector is highly regulated, which increases barriers to entry. So, a handful of banks (including TD) dominate this sector. Compared to peers south of the border, Canadian banks are much more conservative. This has allowed TD to maintain a strong balance sheet and easily withstand economic downturns.

TD is also among the ten largest banks in North America and is gaining traction in the United States. It announced two big-ticket acquisitions recently, which include **First Horizon** and **Cowen**, allowing TD to enter several other markets in the U.S.

What next for TD stock?

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Despite its stellar returns, TD stock is currently trading at 11.5 times forward earnings which is quite cheap given its tasty dividend yield. Further, analysts expect TD stock to increase its earnings by 17.6% annually in the next five years.

The next 12 months could be extremely challenging for investors and enterprises. But TD Bank's well-capitalized balance sheet provides enough flexibility to endure another period of economic volatility.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. NASDAQ:COWN (Cowen Inc.)
2. NYSE:FHN (First Horizon National Corporation)
3. TSX:TD (The Toronto-Dominion Bank)

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