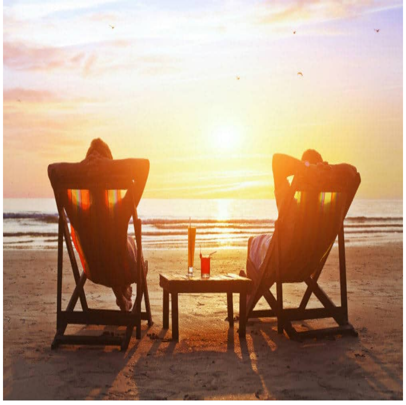

3 CPP Changes Coming in 2023 – What to Invest Your Accounts In

Description

Big changes are coming to the Canada Pension Plan (CPP) in 2023. Not only will these changes affect the amount you pay in (or if retired, receive), they will also affect your investments. The amount you pay into the CPP plan determines how much money you have to invest. When your contribution rate goes up, your after-tax income goes down. It's hard to say for sure how much money you'll be able to invest when CPP premiums change. In this article, I will explore the changes coming to the CPP in 2023, and how investors can respond to them.

Pensionable earnings increase

The first change coming to the CPP program in 2023 is an increase in maximum pensionable earnings. "pensionable earnings" is the amount of your income from which CPP premiums are deducted. Once you go past the maximum, you make no further CPP contributions. If maximum pensionable earnings equal $50,000, then someone earning $100,000 pays *no CPP premiums* on half their income, while someone earning $50,000 pays premiums on *all of their income*.

In 2022, maximum pensionable earnings were set at $64,000. In 2023, they'll be set at $66,600. If you earned $64,000 in 2022, and expect to earn the same in 2023, then you will pay a little more in CPP premiums next year.

The final phase of CPP enhancement

Speaking of paying rising CPP premiums, there's still another reason why you might pay more next year:

CPP enhancement!

In 2022, the CPP premium was 5.70% of pensionable earnings. In 2023, it will be 5.95%. If you're self-employed, double both of those amounts to get the number applicable to you. CPP enhancement has been going on for years now, starting in 2019 and continuing to 2023. Next year will be the final planned increase to CPP premiums, marking the conclusion of CPP enhancement.

New TFSA space

In 2023, an additional $6,500 in tax free savings account (TFSA) contribution room will be given to Canadians eligible to open TFSAs. This is both an increase in total contribution room, and an increase in the annual amount: last year's increase was $6,000.

You might not think of the TFSA as something related to the CPP, but it is, indirectly. The TFSA is an account in which you can hold investments tax-free. The CPP is a program you pay into out of employment income. TFSA investments aren't subject to CPP deductions, or any form of taxation, so the TFSA is a valuable source of income that can't get spirited away to the CRA.

This is one of the reasons why many Canadians like to hold dividend stocks like **Enbridge Inc** (TSX:ENB) in their TFSAs.

Enbridge is a dividend stock, which means that it gives you taxable income each and every single year. If you hold non-dividend stocks and never sell, you may never pay taxes on them in any account. But if you hold Enbridge, you get earnings that can only be tax exempted by holding the stock in a TFSA. In fact, you may earn quite a bit of dividend income, since ENB stock has a very high yield (6.2%). Thanks to the new TFSA space being added, you can shelter a little bit more of your income from taxation than you could last year. With CPP premiums set to increase, that makes a big difference.

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