



## \$500/Week CERB Crisis Money: Beware of the CRA Taxes

### Description

Millions of Canadians applied for the Canada Emergency Response Benefit (CERB). Thousands more will line up to receive \$500 weekly in the third to the seventh cycles. But CERB recipients must be aware that the [crisis money](#) is taxable income.

The Canada Revenue Agency (CRA) will release the amount in full over four weeks and not deduct the tax due upfront. However, when you file your tax return for the year 2020 next spring, you must declare the CERB as income. If you're worried about a higher tax bill in 2021, don't use all (if possible) and set aside enough for taxes.

### CERB mechanics

The [expanded CERB](#) is available to workers (full-time, part-time, contract, and seasonal) as well as self-employed individuals who lost jobs or income due to COVID-19. People who have exhausted their Employment Insurance (EI) benefits between December 29, 2019, and October 3, 2020, can apply for the CERB.

There are seven application cycles. The first cycle began on March 15, 2020, and the seventh begins on August 30, 2020. The CRA will accept CERB applications until December 2, 2020.

### Allot 20% for tax

The total CERB amount is \$2,000 per month for a period of up to four months. Estimating your income for this year is difficult. You don't know when your work will resume or if you'll ever return to work. Nevertheless, the CRA will tax CERB income the same way it does regular income or other sources of income.

Since the effective tax rate is between 15% and 25%, keeping 20% of every CERB payment should be ideal. You have sufficient time to prepare as you won't receive the tax bill until April 2021.

## Offset the CERB tax

The CERB may allow you not to dip into your savings. But if you have extra cash to invest, you can counter the tax due on your CERB. **National Bank of Canada** ([TSX:NA](#)) is one investment option because of its reliability as a dividend-payer.

Nearly all bank stocks are trading at depressed prices today. The current share price of this sixth-largest bank in Canada is \$51.38, or 38.43% lower than its 2019 year-end price. However, the stock offers a dividend yield of 5.48%.

The estimated tax amount you need to offset is \$1,600 or 20% of the total \$8,000 CERB for four months. A \$29,500 investment in National Bank will do the trick. You can derive \$1,616.60 dividends from the bank stock.

National Bank is due to present its second-quarter results for the fiscal year 2020 on May 26, 2020. In the prior quarter, net income rose by 10.5% to \$610 million. All business segments, from wealth management and personal/commercial banking to global market, posted revenue growths.

Management said the impact of the COVID-19 outbreak would appear in the next quarter's earnings report. The bank has set aside \$89 million for credit losses in the first quarter of 2020.

## For essentials only

Now that you know that CERB is taxable, the financial aid is for essentials needs only. If your situation allows, don't spend it all and save some for the CRA.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)

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