CRA: Prepare for Higher Taxes Post-COVID

Description

There's no end in sight for the current crisis. However, the government has stepped in with support policies that have prevented economic chaos across the country. These initiatives are comprehensive and much-needed, but also extremely expensive. Businesses and investors should prepare for much higher taxes in the years ahead to offset the ongoing stimulus packages.

On a federal level, the numbers are staggering. The national debt is expected to balloon to $1 trillion this year, while the fiscal deficit hits $100 billion. These figures could be much larger if the pandemic lingers for longer than expected or if employment doesn't recover soon enough after the crisis.

The need for higher taxes is so obvious that some provincial and city officials have already announced hikes. Property taxes for Calgarians was hiked 7.5% this year, while those in Toronto could surge 47% to pay for the city's services going forward.

Here are three ways this incoming wave of higher taxes could impact our economy and your investments.

Higher taxes, lower dividends

It's easy to forget that dividends are paid out after taxes. After a company has dealt with its tax obligations, leftover cash can be retained, reinvested or handed out to shareholders as dividends. A higher corporate tax rate could well mean less money for these activities.

Shareholders who rely on dividend stocks for passive income should probably take this added tax burden into account. In fact, if personal taxes are raised as well, dividend income could be sharply lower for many investors and retirees.

Real estate

Property taxes are inversely correlated with the value of real estate. Higher property taxes ultimately increase the carrying cost of a property, reducing the cash flow real estate investment funds and landlords can expect from their assets. Ultimately, this will lower the dividends offered by Canada's most popular REITs, such as **RioCan**.

However, the higher cost of property taxes could be offset by lower mortgage costs. With interest rates at a record low, monthly mortgage payments for Canadian landlords could be much lower in a post-COVID world. Only time will tell how this impacts real estate valuations and dividend income.

Consumer discretionary spending

Canadians already pay higher individual taxes than most other developed countries. If these costs are raised, the average household could be forced to cut back on discretionary spending, which means lower income for restaurants, bars, cinemas, theme parks and luxury retailers.

Stocks like **Recipe Unlimited** and **Canada Goose** could suffer from a downturn in consumer confidence and spending power.

Alternatives

In a high tax environment, growth stocks with less profitability come out ahead. Technology and biotech companies tend to reinvest all their cash flow into expansion, leaving them with a net loss that can be claimed for tax credits.

In fact, high-growth tech companies have access to government incentives for research and development too. If you're a growth investor who doesn't need dividends, higher taxes have minimal impact on your portfolio.

Bottom line

The government is borrowing and printing money at a historic pace to fund stimulus — necessary but expensive measures. Eventually, businesses and consumers could face higher costs.

Investors should account for less money left over for dividends, expansion and discretionary spending.

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