



\$8,000 CERB Payment: Set Aside at Least 20% Tax for the CRA

Description

The COVID-19 pandemic has brought a health scare as well as financial hardship to many Canadians. It is difficult to be without a job or income and no [money to get by](#) while on lockdown. Thankfully, the federal government came out with the Canada Emergency Response Benefit (CERB).

Eligible recipients will receive \$8,000 in total within 16 weeks. The federal aid is most welcome but is also [taxable](#). You will have to pay some of it back to the Canada Revenue Agency (CRA) when you pay your taxes next year. Thus, the scuttlebutt is that you don't spend your entire CERB and set aside at least 20%.

The caveat

Visit the government website to know the details about CERB. You will find in the Q&A section that you will owe taxes to the CRA on the temporary benefit. The lowest tax rate is 15%. If you received the maximum CERB, the tax due is \$1,200. Hence, your real money is only \$6,800. The CRA did not deduct or withhold tax at the source.

Leaving 20% of your CERB is recommended because, aside from the federal tax, there are the provincial and territorial tax rates to consider. There are set tax brackets in provinces and territories, depending on levels of income. Thus, the reserve of \$1,600 should be enough to cover all.

Tax reckoning

The tax reckoning will be in 2021 when you file your tax return for the 2020 income year. You must include CERB as income. However, the CRA will determine the exact balance from your overall income for the year.

Some individual taxpayers will qualify to receive CERB but will not be paying any tax at all. If your income does not exceed the basic personal amount (BPA) of \$13,229, you won't have to pay any income tax on your CERB payments. The maximum BPA will increase yearly until 2023. By then, the

BPA should be \$15,000.

Offset the tax component

You can offset the tax component of CERB or minimize its effect with investment income. While CERB is employment income, dividends from stocks are not. There are companies offering yields as high as 10%, although the risks are higher.

For risk-averse investors, **TELUS** ([TSX:T](#))([NYSE:TU](#)) is the alternative option. This telecom stock is paying a 4.92% dividend. Assuming you have \$8,000 to invest, it can earn \$393.60. A \$25,000 investment should already meet the suggested 20% allocation for tax.

TELUS is one of the three dominant industry players in Canada. The immediate environment is challenging, yet this \$30.38 billion telco giant continues to deliver robust financial and operational results. In Q1 2020, adjusted EBITDA and consolidated operating revenue grew by 4.2% and 5.4%, respectively, versus Q1 2019.

The latest initiative is the support of small business owners in Canada. TELUS is committing \$500,000 in direct revenue, marketing, and expert advice to help entrepreneurs cope with the financial crisis. Similarly, TELUS provides vital communications services not only during the pandemic but for decades to come.

Manage your CERB

The CERB you will receive today is taxable. Manage this 2020 emergency money well, so you won't have to worry about giving some back to the CRA in 2021.

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