



## Here's How Much the CRA Can Tax Your CERB in 2020

### Description

As the COVID-19 pandemic surged across the world, economies came to a halt, since governments announced mandatory lockdowns and strict social-distancing measures to curb the spread of disease. Millions of people lost their jobs. Dealing with a global health crisis was already bad. A financial crunch due to the loss of income made things worse.

Fortunately for Canadian citizens, the [government decided to help](#) its most vulnerable citizens by announcing the Canada Emergency Response Benefit (CERB) program. With the CERB in motion, the Canada Revenue Agency (CRA) will pay eligible Canadians up to \$2,000 per month for 16 weeks.

At writing, the CRA has rolled out more than \$43 billion in CERB money. As the deadline closes on CERB, and with no visible end to the pandemic, there will be an extension to the CERB for a further eight weeks, according to Prime Minister Justin Trudeau.

While the extension is fantastic news, Canadians receiving CERB money and applying for the extension when it arrives should know that this amount is taxable by the CRA.

### CERB tax rate

The emergency funds are not tax-free, and the CRA is distributing CERB money to Canadians without cutting taxes to help them make the most of it. According to the program, applicants will receive weekly cheques of \$500 for 16 weeks. The maximum amount they could receive through CERB for 16 weeks was \$8,000.

With the announcement of a further eight weeks to the CERB program, eligible Canadians can receive a total of \$12,000. When the next tax season arrives, the CRA will apply taxes to the funds you have received. The question is, what is the tax rate on CERB money?

Taxes on the CERB benefits depend on your total income in 2020. To estimate your taxes, you have to get a sum of your income through employment, any self-employment income (if applicable), income from other sources, and CERB payments.

For the sake of helping you understand the tax rate, let's assume that you live in Ontario, and your annual income in 2020 amounts to \$58,000, including CERB.

You will fall under two tax brackets for provincial and federal taxes. The federal tax rate on the first \$48,535 is 15%. Ontario's provincial tax rate for the first \$44,740 is 5.05%. Your taxes for the first \$44,740 will be applied at 20.05%.

For the remaining \$3,795 of your income, the federal tax will still be 15%, but the Ontario provincial tax will be 9.15%. That makes the tax for the second \$3,795 at 24.15%.

For the remaining \$9,465, The federal tax rate will be 20.5%, and the provincial tax will stand at 9.15%, bringing the tax rate for the remaining amount to 29.65%.

With all the payments to the CRA combined, you can expect to pay almost \$12,700 on an income of \$58,000 for the 2020 income.

## Earn tax-free income

That is a lot of taxes to pay to the CRA. To reduce taxes, you can buy income-producing assets and hold them in a Tax-Free Savings Account (TFSA). Any earnings in assets stored in a TFSA can grow your capital tax-free. You can also withdraw amounts from your TFSA without any service charges or taxes from the CRA.

I highly recommend buying **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) shares and holding them in your TFSA. You can earn a substantial income through dividend payouts over the years, and leverage its [capital gains](#) to increase your wealth further.

Fortis is a top operator in Canada's utility sector. Most of the company's income is guaranteed through regulated long-term contracts. Even during a pandemic or financial crisis for other reasons, Fortis can earn a predictable and relatively stable income compared to companies in other sectors.

## Foolish takeaway

Avoiding taxes wherever it is legally possible is not an opportunity you should pass up. Consider investing in the Fortis stock and holding its shares in a TFSA to earn tax-free passive income. At writing, the stock is trading for \$52.02 per share, and it pays its investors a juicy 5.67% dividend yield. I think it could be an ideal stock to begin building a dividend-income TFSA portfolio.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

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