Avoid These 2 Huge Tax Mistakes in 2020

Description

The year 2020 has been a disaster — so much so that many people don't feel optimistic about the country opening up or the curve flattening, thinking that the year might still have some nasty surprises in store for the world. With all these issues to deal with, it doesn't make sense if you create more problems for yourself.

One way you can do that is by *not* taking CRA's leniency lightly for this year. The department delayed tax filing and submission deadlines so that people who have been affected by the pandemic will have more time to make arrangements for their taxes. The CRA also provided the CERB program, explicitly directed toward people who lost their livelihood and are unable to start earning again.

Mistake number 1

The tax season has already been delayed. Now, the last date to submit your taxes is September 1st. While that's still quite far away, it won't go farther than that. Hopefully, you will have enough funds to cover your tax obligation.

If you don't, now might be a good time to start looking into your options. It's not a good idea to raid your safety funds and reserves to pay your taxes, but that might be the only option for some people.

If you have an income source, you might be able to save enough money to cover your tax obligation by aggressively saving for the next two months. The CERB isn't taxable now, but it will add to your current year's income, and you will have to pay taxes on in next year.

Mistake number 2

Don't cheat your way into the CERB program. It's directed toward specific individuals, and if you don't qualify, you shouldn't be applying for CERB. If you didn't quit your work voluntarily and can't find work despite trying, you may still qualify for CERB. But be sure to check the basic eligibility requirement.

You should also keep an eye out for any revisions that the CRA might make in CERB qualification. Because if CRA changes the requirements and you don't qualify now (even if you did before), any subsequent payments you receive should be sent back.

Mistake number 3: A common mistake

But here's a far more common error than the CERB: not saving and investing when you *had* the time and resources. If you keep waiting to earn a "certain amount" before investing, you will lose all the benefits you can get from compounding by starting to invest right now.

If you can invest just $500 a month in a dependable growth stock like **Northland Power** (TSX:NPI), you could create a small fortune for yourself in a couple of decades. Northland is a green power company that develops, builds, and operates green power infrastructures around the globe. Currently, the company is focused on four major power sources: Thermal, wind, solar, and hydro.

While the company has accumulated an impressive amount of debt (more than its market capitalization), it also possesses a substantial array of assets. It offers monthly dividends of $0.1 per share, which results in a yield of 3.66%. The company has been growing steadily for almost a decade, and its 10-year compound average annual growth rate (CAGR) is about 15.86%.

At this rate, the company can turn your $500 a month investment into a nest egg of well over half a million in 20 years. And that's if you don't reinvest the dividends. As a green and clean energy-focused company, it might keep growing for a while yet.

Foolish takeaway

While taxes are a predictable burden, you can mitigate it by using your registered accounts to invest. The RRSP will give you a tax break now, while the TFSA could help you offset your tax burden later, when you are drawing from your savings/investments for your income, as all assets will be tax-free.

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