CERB Extension to Cost Canadian Taxpayers $17.9 BILLION!

Description

On Tuesday, the Parliamentary Budget Officer revealed that the eight-week CERB extension will cost the federal government approximately $17.9 billion. That brings the projected total cost of the program to $71 billion; it was estimated to cost $53 billion on the previous timeline.

The numbers given so far are only estimates. According to *The Canadian Press*, $60 billion has been budgeted for the CERB so far. If fewer people draw on the benefit going forward, it's possible that the $71.9 billion price tag will never materialize. Nevertheless, the benefits already paid have been massive.

While the CERB was and is a necessary program to help out of work Canadians, the costs are really going to add up. The question is, how will this play out for individual Canadians?

How much has been paid out so far?

Before asking how much the CERB is going to cost the Canadian taxpayer, we need to look at how much has been spent on the program so far. There are a few different figures to look at here:

- The amount already paid: **$43.54 billion**.
- The amount the program was estimated to cost on the original 16-week timeline: **$53 billion**.
- The amount that had previously been budgeted for the program: **$60 billion**.
- The new cost estimate: **$71.9 billion**.

Of all the figures just cited, the only one that's set in stone is the $43.54 billion paid to date. The $53 billion for the old timeline and $71.9 billion for the new timeline are both estimates. The $60 billion budgeted to date represents funds already allocated but not guaranteed to be spent. However, the eight-week extension makes it likely that money spent on the CERB will exceed that amount. In total, the government is estimating that all COVID-19 benefits combined will cost $169 billion.

Tax increases incoming?

When looking at the amount of money the government will spend on COVID-19 support, it's hard not to worry that tax increases are coming. Canada's 2019 budget featured $355 in expenditures; this year's projected COVID-19 spending *alone* ($169 billion) is nearly half that. While governments can borrow to finance deficits, there is a possibility of tax increases in 2021. Finance Minister Bill Morneau did say in May that no tax hikes were coming, but benefit costs have increased since that time.

Fortunately, if you're hoping to keep yourself above water in an era of higher taxes, you have options. While you'd have to take higher employment taxes on the chin, it's very much within your power to reduce taxes on your investments.

The way to do that is to hold your investments in a Tax-Free Savings Account (TFSA). A TFSA is a special tax-free account that lets you hold and withdraw investments tax free. The tax savings from holding investments in one are substantial.

Consider the case of an investor holding $50,000 worth of the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in a TFSA. That $50,000 position would generate between $1,500 and $1,700 a year in dividends at current prices. The taxes on those dividends would be significant: even factoring in the dividend tax credit, the total could be as high as $500. In the event of a major federal tax increase, those taxes would be even higher.

But because our hypothetical investor holds their shares in a TFSA, they would pay $0 in dividend taxes. That's several hundred dollars in tax savings just by holding XIU in a tax-free environment. At present, you can have up to $69,500 in TFSA contribution room, so the amount of taxes you can save by holding stocks in a TFSA is substantial — even more so if there's a federal tax hike.

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