Applying for CERB? Beware the Hidden Tax

Description

Another month, another round of the Canadian Emergency Response Benefit (CERB) approved by the federal government. In fact, the benefit has even been recently extended to 24 weeks for a number of workers. While this might be seen as a positive, many Canadians are unfortunately becoming less certain. More CERB means more people that are still out of work or in need of more work. That's more Canadians struggling to meet what's necessary to make a living.

Meanwhile, the price keeps climbing higher. As of writing, 8.41 million people receive CERB. That's $43.51 billion the Canadian government has to pay from out taxes. So while $500 a week sounds great, there are a number of caveats attached. Before you apply for CERB, consider this.

CERB's hidden tax

Let's say you're one of the workers looking into getting those 24 weeks from CERB. I get it: that's $12,000 in your pocket! You get that cheque every week, put it in your bank account and forget about it. For now.

You can forget about it until tax time, when the Canada Revenue Agency (CRA) will absolutely expect you to declare CERB on your tax returns. How much will you get taxed? Here's the scary part: *no one knows*.

It's unlikely the CRA will treat the CERB any differently than the rest of your income. That means while your regular employment takes taxes into consideration, you won't get that treatment from CERB cheques. Instead, you have to make an educated guess as to how much you're likely to make this year and put some money aside.

How much?

There are a number of calculators to help you figure out how much you might get taxed by the CRA. The Canadian government even has one. However, if you're unsure, there's a pretty wide range. The average tax paid by Canadians even varies between provinces and territories, with the average sitting somewhere around 23%.

To be on the safe side, I would put aside 30% of whatever you make this year. Yes, that's above the usual rate, but it's *way* better to have too much put aside than too little. You can then use that cash for other things, such as investing in some solid stocks while the market is still in rebound mode.

Dig into dividends

If you're looking for strong returns and cash coming in — which you likely are if you're applying for CERB, take some of that cash and invest it in dividend stocks. A strong choice right now is the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

This stock offers Canadians seeking extra cash the highest dividend yield of the Big Six Banks. As of writing, that's a dividend yield of 6.23%, or $5.84 per share per year. If you put 30% of that $12,000 into this stock, that would bring in 38 shares for $221.92 of dividends a year — not just for a few weeks, but forever.

Meanwhile, by the time tax time comes, your shares will likely have increased. If shares only manage to reach pre-crash levels, that would turn your $3,600 into $4,408. So even if that total 30% is taxed by the CRA, you'll still walk away with a total of $1,029.92, including dividends from one stock.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/27
Date Created
2020/06/28

Author
alegatewolfe