



CRA Update: Your CERB Payments Could Add \$3,000 to Your Tax Bill

Description

The Canada Revenue Agency (CRA) has helped you through tough times by offering up to \$2,000 every month in living expenses to those who lost their source of income. While the CRA did not deduct tax while making these payments, the payments will be added to your taxable income for the 2020 tax year.

If you have [wrongly received](#) the Canada Emergency Response Benefit (CERB), you can repay it to the CRA before December 31 and avoid paying tax on these payments. For those who received the CERB, your tax will be calculated on your annual income.

The average income of Canadians

The COVID-19 pandemic has significantly reduced the average income of Canadians. Many people lost their jobs or received pay cuts or took long leave without pay. According to [Statistics Canada](#), the average weekly income of Canadians was \$1,050 in January, which equates to \$54,600 in a year.

For instance, James is an average income earner (who earns \$4,200 a month) from Manitoba. He lost his job because of the pandemic-driven lockdown. He applied for the CERB and received the maximum payment of \$12,000 between April and September. During this time, he did some freelancing work and managed to earn around \$1,000 a month.

As the economy re-opened, he was called back by his employer on the same pay scale. His total taxable income after adding the CERB payments comes up to \$47,400.

Like James, many Canadians would see a decline in their annual income this year. So should you be worried about a heavy tax bill?

What is my estimated tax for the 2020 tax year?

When calculating your taxes, remember you will have to pay a federal and a provincial tax. The federal

tax is 15% on the first \$48,535 of taxable income. In the case of James, he will pay a federal tax of \$7,100 on the \$47,400 in taxable income he earned between January and December 2020.

If James stays in Manitoba, he will pay a provincial tax of 10.8% on the first \$33,389 of taxable income and 12.75% on the next \$38,775. His provincial tax will come to around \$5,400, increasing his total tax bill to \$12,500. Around \$3,300 of this tax is charged on the CERB payments.

Reduce your tax burden by investing through TFSA

It is important to calculate your tax beforehand to set aside some money for the same. You still have eight months before the tax becomes due. If you have set aside \$100 every week from the CERB payments of \$500 a week, you would have saved around \$2,400 by now. Also, the CRA has credited a one-time bonus of up to \$400 in Goods and Services Tax (GST) Credit in April.

If you still have this money with you, invest it in a dividend stock like **RioCan REIT** ([TSX:REI.UN](#)) through your Tax-Free Savings Account (TFSA). The REIT has a dividend yield of 9.6%. By March, you will earn \$180 in dividend income on the \$2,800 you invested.

The RioCan stock is currently down 40% year to date as investors fear that the REIT will be unable to collect rent from its retail tenants. As the retailers re-open their shops, its rent collection will improve and increase investor confidence.

While it will take the RioCan stock some time to return to the pre-pandemic level of \$26, it could see some growth later this year. If the stock recovers partially to around \$18, your \$2,800 could become \$3,500. This entire amount will be yours under the TFSA and it will take care of your CERB tax bill of \$3,300.

Taxpayers' takeaway

The month of March is a crucial one for all taxpayers as it takes away a big amount from your income. You can prepare in advance and let the CERB payment earn its tax bill. You can also take advantage of the various deductions and credits that can reduce your taxable income.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Sharewise
6. Yahoo CA

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