CRA Update: 22% of Canadians Have Applied for the CERB

Description

According to the Canada Revenue Agency (CRA), 8.25 million Canadians have applied for the CERB. That comes from the CRA's website on *Canada.ca,* which lists that figure under "unique applicants." In total, 18.98 million CERB applications have been received, including repeat applications.

Based on these figures, approximately 22% of Canadians have applied for the CERB (21.7% to be exact). It's very likely that about the same percentage have actually *received* the benefit, too. In order to get help out to Canadians in the face of COVID-19, the CRA pushed through CERB applications quickly, with as little red tape as possible. As a result, most Canadians who applied for the CERB, likely received at least one payment.

This is a significant development for many reasons. 22% is nearly a quarter of Canada's *total* population. As a percentage of the working age population, the number of people on the CERB is even higher. That's an alarming statistic for all Canadians. For investors, it has particularly grave consequences.

What 8.25 million CERB applicants means

As previously mentioned, the CERB's 8.25 million unique applicants represent about 22% of Canada's population. However, it's closer to 34% of the working-age population, which is about 24 million. That's a massive percentage of the population to have on a [$2,000-a-month government benefit]. And the proof is in the pudding: the CERB has cost Canadian taxpayers $54 billion so far, a major component of this year's [projected $343 billion deficit].

Cost of the extension

$54 billion government benefits don't come out of thin air. They're financed by a combination of debt and tax revenue. In this case, it's mostly debt: as previously mentioned, tax revenues were $343 billion shy of expenditures this year. That level of debt comes at a big cost.

All federal debt creates interest expenses, which have to be paid out of tax revenue. The more interest expenses you have, the less money you have left over for services. S0, it's quite likely that the deficit we're seeing today could lead to tax increases in the future.

Implications for investors

For investors, the number of CERB recipients has a number of implications.

First, the good news: this money is probably keeping consumer spending afloat. When people are out of work, they typically cut spending out of their budgets. That results in lower earnings for retailers — and weaker returns for retail stocks. The CERB represents a pretty high percentage of earnings for low-income Canadians, so it's likely helping to keep consumer spending afloat.

Now the bad news: it's fairly likely that tax increases are coming, and that will impact your investments' performance. Both dividends and capital gains are taxed, and while they have preferential tax treatment, these taxes will go up if your marginal tax rate goes up.

To illustrate, let's imagine that you had a tax rate of 30% and were holding $100,000 worth of **Fortis** (TSX:FTS)(NYSE:FTS) stock. If you realized a $10,000 gain on your FTS shares and sold, you'd have a $5,000 taxable gain. That's because half of capital gains are tax exempt. With your 30% marginal tax rate, you'd pay a $1,500 tax on that $5,000 gain. You'd also pay taxes on dividends received. The value of the dividends would be increased by 38% and taxed at your marginal rate minus a 15% credit.

If your tax rate suddenly rose to 40%, both of these taxes would increase. That would be a big hit. For example, the $1,500 you'd pay on the capital gains would increase to $2,000. If you can't afford a big hit to your income like that, then consider holding as much of your shares in a TFSA as possible. That's particularly important for dividend stocks like FTS, because you can't avoid dividend taxes by just not selling.

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2025/08/28
Date Created
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