Economists: Millennials and Teens Living at Home Get $11.8 BILLION From the CERB!

Description

Earlier today, three economists wrote in the *Financial Post* that young people living with their parents could get $11.8 *billion* in CERB money. The report used official *StatCan* data to arrive at its conclusion. According to the report, the average earnings of Canadians aged 15-24 who live at home implies $11.8 billion in CERB eligibly, providing their report's headline figure.

The authors of the report used this data to argue that the CERB program has been "imprudent." The thesis of the report was that CERB money has been going to Canadians whose "need is questionable,"indicating poor fiscal management.

This is undeniably a partisan statement from the authors, who are affiliated with the libertarian-leaning *Fraser Institute.* Nevertheless, the numbers contained in the report have implications for Canadian taxpayers — including investors.

Why this number is important

The $11.8 billion figure in question is significant, because it shows just how freely CERB money is being given out. Whether or not you agree with the economists' conclusion, they've undeniably shown a lot of money is being spent. What's more, that money is just a slice of the $73 billion the CERB is expected to cost in total.

Just recently, Ottawa released a fiscal snapshot showing a $343 billion expected deficit for 2020. That money doesn't come out of thin air, and sooner or later taxpayers will foot the bill for it.

The raw numbers from the *Financial Post* article are therefore useful. Its ultimate conclusion — that younger Canadians' "need is questionable" — appears less so. Living with your parents doesn't mean you don't have bills to pay. A young person living with his or her parents could have, say, a $100 monthly cell phone bill, a $250 monthly car payment, a $200 insurance payment, $200 in monthly grocery expenses, and credit card debt with monthly minimum payments.

Add enough of these expenses together, and you could get pretty close to an average CERB recipient's after-tax amount. That's not to say that the average Canadian living at home needs $2,000 a month, but rather, that many Canadians in that demographic do have living expenses.

Implications for investors

Whether or not you think too much CERB money is being given out, it's undeniable that the program has been costly. It alone is projected to cost $73 billion out of an estimated $190 billion in total COVID-19 support. Such a massive increase in spending is likely to be followed by tax increases sooner or later. These increases, if they materialize, will hit Canadians in the pocketbooks.

This can be illustrated by looking at the taxes on $100,000 worth of **Fortis** (TSX:FTS)(NYSE:FTS) stock. Stocks are great examples to work with because they have loads of tax advantages yet still take a big hit when taxes increase.

If you held $100,000 worth of FTS and realized a $10,000 gain, you'd have $5,000 in taxable income. That's because 50% of a capital gain is tax exempt. With a 30% marginal tax rate, you'd pay $1,500 in taxes on that gain. That's quite a bit of tax. But if taxes increased, you'd pay even more. For example, if your marginal tax rate went up to 40%, the taxes payable would increase to $2,000. That's a $500 tax increase even *with* the favourable tax treatment on capital gains!

If you saw that big of a tax increase on a stock like FTS, the increase on your employment income would be even bigger. Unfortunately, you may have to resign yourself to that; it's quite likely that this year's deficit will lead to tax increases in the future.

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Date
2025/08/28
Date Created
2020/07/17
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