



Students Please Note: Your 2020 CRA Tax Bill Could Go Up to \$2,500

Description

The new academic year will start in September. For students, it's time to accumulate your finances and apply for any financial assistance needed to start your academic program. While you are already doing your finances, it is better to calculate your 2020 taxes in advance. To calculate the tax, you need to jot down all the possible taxable income you have earned so far, and the income you will earn in the coming months.

What *is* your taxable income?

This year has been tough for everyone as the COVID-19 pandemic has put all plans down the drain. The summer vacations are crucial for students as they look to get part-time or full-time jobs to pay for their living expenses, and/or save money for the upcoming school year. But the pandemic created job scarcity as the government imposed nationwide lockdown.

Taxable benefits

The Canada Revenue Agency (CRA) started the [Canada Emergency Student Benefit](#) (CESB) for students who were unable to get work. It is paying up to \$1,250 in monthly payments between May and August to help students with their living expenses. The maximum CESB a single student can get is \$5,000. This amount is added to your taxable income.

The CRA has also offered the Canada Student Service Grant (CSSG) to help students get paid work experience. Under the program, students who volunteer with a not-for-profit organization working for the COVID-19 response can earn up to \$5,000 for \$500 hours. This equates to \$10 per hour, which is less than the [lowest minimum wage of \\$11.32](#).

However, when the job market is slow, the prospect of earning \$5,000 is also a good opportunity. You will have to add this amount to your taxable income.

Other taxable income

Beyond benefits, you may have a Registered Education Savings Plan (RESP) or a student loan to fund your studies. In RESP, you pay tax on the interest earned. In student loans, you can claim a tax credit on the interest paid.

If you are just starting your bachelor's program, you can withdraw up to \$5,000 from your RESP as educational assistance payments (EAPs) in the first 13 weeks of the program. If your parents have been investing in RESP for 10 years, around half of the amount will most likely be from the investment income and will be added to your taxable income.

In case you have taken a student loan, then you can claim a tax credit on the interest paid. You will have to add the principal amount to your taxable income. However, the CRA paused the interest and repayment of student loans for six months in response to the pandemic. This benefit can help you reduce your taxable income this year.

What is your estimated tax bill?

After including \$5,000 each in the CESB and the CSSG and \$2,500 in interest income under RESP, your taxable amount adds up to \$12,500. This amount may be higher if you withdraw a higher EAP or student loan or got a summer job that paid you a fair minimum wage.

On \$12,500, you will pay a 15% federal tax of \$1,875 and a provincial tax which varies from province to province. If you are studying in Ontario (5.05% provincial tax), your estimated tax bill for the 2020 tax year will add to \$2,500.

Investments can reduce your tax burden

Now that you know a \$2,500 tax bill will be due in April, you can start saving for it. For the academic year, you can get up to \$6,000 in a non-repayable, tax-free grant for your living expense. This means, you can save at least \$100 a week from the three-months of full-time job under the CSSG.

Open a Tax-Free Saving Account (TFSA) and invest this money in a dividend stock like SmartCentres REIT ([TSX: SRU.UN](#)) which has a dividend yield of 8.97%. The stock is currently down 35% from its last year's average trading price of \$32. The stock fell as the lockdown raised concerns around the REIT's rent income from retailers. It has not yet reduced its dividend as it has sufficient cash flow to pay dividends.

If you invest \$100 a week in SmartCenters for the next three months, you will have around \$1,250 in your TFSA by April. This amount will reduce 50% of your tax burden.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

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Date

2025/08/25

Date Created

2020/07/17

Author

pujatayal

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