



Planning a \$2,000 CERB Spending Spree? Beware the CRA

Description

Last week, *BNN Bloomberg* reported that some Canadians had taken to the video app TikTok to [brag about their CERB spending sprees](#). The article reported that TikTok users were flashing items like Louis Vuitton bags, video games, and expensive speakers in their short video posts.

That's not entirely surprising. In the interest of getting aid out to Canadians in need, the CRA pushed through initial CERB applications quickly. As a result, many who didn't really need the benefit received it. In the early months of the program, there were reports that people received the CERB within three to five days of applying, with no questions asked. Since then, the CRA has taken a harder line on CERB fraud, and application processing times have gotten longer.

If you're currently receiving the CERB, you might be tempted to spend the money on your wish list items. Particularly if you're a younger Canadian living at home, \$1,000 bi-weekly can seem like a lot of money. However, you'd be better off not using your CERB payments on a spending spree. As you're about to see, there are two very good reasons you should avoid spending your CERB money on non-essential items. The first pertains to a risk that you'll definitely want to avoid.

The CRA is cracking down on CERB fraud

One reason to not spend your CERB money willy nilly is because the CRA is cracking down on CERB fraud. In June, the CRA opened a snitch line for Canadians to report people they suspected of wrongly obtaining the CERB. More recently, the agency began [slowing down its application processing](#) to complete more thorough identity checks. Taken together, these signs indicate a CRA that's becoming more reticent to hand out cash to those not eligible. This isn't an environment where you want to be found blowing CERB money on video games and stereo systems.

CERB money is taxable

Another issue with blowing CERB money is the fact that the benefit is taxable. You receive the benefit tax-free, but you have to set money aside to pay taxes on it. If your marginal tax rate is 30%, then you'll

need to pay \$600 on every \$2,000 you receive from the CERB. Going on a spending spree is therefore a good way to find yourself owing come next April.

Foolish takeaway

Although receiving money from the CRA can *feel* like a licence to spend big, it's really not. CERB money is fully taxable and doesn't add up to much after taxes are factored in. Additionally, blowing CERB money on discretionary items seems like a good way to get reported to the CRA's tip line. You definitely don't want to find yourself in that boat, so you'd be better off being prudent with your CERB money.

That doesn't mean you have to entirely give up on passive income that you can spend as you like, however. By investing in low-fee, passive index funds like the **iShares S&P/TSX 60 Index Fund**, you can build an income stream that you can spend however you like. At first, the money you'd get in dividends from a fund like XIU would be fairly small. However, over the course of a decade, you could build your XIU position up to \$100,000, at which point you'd get over \$3,000 a year in dividends from it. That's a nice income supplement, and — better still — one that the CRA won't look askance at.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date

2025/09/18

Date Created

2020/07/27

Author

andrewbutton

default watermark

default watermark