CRA UPDATE: Almost Everyone Can Claim This 2020 Tax Break

Description

There's been a great deal of press given to new tax breaks for the COVID-19 pandemic. The Canada Emergency Response Benefit and the Canada Emergency Wage Subsidy are just two of the new benefits offered by the Canada Revenue Agency (CRA). But it's not only new benefits that Canadians should pay attention to.

One of the biggest changes during this pandemic is having to work from home. Businesses across the country closed. Even with the country slowing reopening, many businesses have either asked employees to continue working from home, or have asked them to do so part time. The CRA's response: you're up for a tax break.

The CRA deduction

The CRA deduction is called the work-space-in-the-home deduction, and it applies if you worked from home more than 50% of the time. It also applies if you have a separate home office and you meet clients there. While that's less likely during a pandemic, it's certainly more likely if your business has temporarily closed.

In the past, those eligible for the CRA deduction received an average of $1,561 back on their tax returns as of 2018 returns. That comes from a total of 174,210 Canadians eligible at the time. According to analysts, that figure could shoot up by hundreds of thousands of new claimants.

If you're curious, you can start calculating your CRA deduction by looking at your bills. You simply add up all your bills for the tax year and look at the square footage of your home office. Then you divide your total bills by the total number of space taken for work.

If you had bills of $12,000 in a 2,400-square-foot home, you would be looking at around $1,300 in tax deductions. All of this could be claimed on a T2-200.

What's important to note is that the pandemic could change things. It could be harder to make this claim if more people are working from home in the future — and that's highly likely. But if it keeps the economy running, I'm sure the CRA will want to give as many benefits as possible.

What to do with the deduction?

Invest! If you've talked to your financial advisor and believe you'll be eligible for the CRA deduction, it's a great time to start your research. While on the one hand it's likely there are further dips the market headed our way, on the other hand it means there are future investment opportunities.

While you might want to wait until you have the cash in hand, I would also urge you to take opportunities as they come. You can then can add the deduction once it arrives. If you continue working from home, that money could be added every tax season!

If you do decide to invest this CRA cash, Canadian banks are a great option right now. These banks fared as some of the best in the world during the last economic downturn and are shaping up to be the same. Most of over a trillion in assets to fall back on, which means a rebound could happen in less than a year.

For my money, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) looks like an excellent option. The company is continuing its expansion throughout the United States, where it's already in the top 10 of banks in the country. It's also expanded into the wealth and commercial management sector, which will bring in tons of cash.

But it remains one of the cheaper share prices among the big banks. As of writing, there is a potential upside of 30% to reach pre-crash levels. Meanwhile, you can add the 5.16% dividend yield to your portfolio as well.

Bottom line

In this example, if you had about $1,300 to invest (or $108 per month if you contribute monthly) in TD Bank, you could take that CRA money and turn it into $1,690 in a year.

On top of that, you'd receive a dividend of about $68.50 per year. So make sure you talk to your financial advisor and see if you're eligible for this tax break. And keep those receipts!

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