

Canada Revenue Agency: How Much Tax Will You owe on CERB Next Year?

Description

Canada Revenue Agency's (CRA) disaster relief programs have put a much-needed floor beneath millions of households. The Canada Emergency Response Benefit (CERB) program has been the most popular and controversial of these initiatives.

Designed to offset the loss of income from the economic lockdown, over 8 million Canadians have claimed CERB payments so far this year. The program has recently been extended to October, so millions more could join the program in the weeks ahead.

While the program has been praised for its user-friendliness and speed, applicants may have overlooked the fact that claiming these payments could have tax consequences next year.

Here's a rundown of the tax implications of the CERB program and how much you might owe during next year's tax filing.

CRA taxes

CERB payments claimed over the course of the program are regarded as regular income. The CRA assumes that a dollar claimed in CERB is the same as a dollar earned from regular income or self-employment.

This means that how much you owe in taxes will depend on two factors – how much CERB you claimed and how much other income you made in 2020. Let's take a few examples to delve deeper.

Examples

Assume two applicants – Jerry and Samantha – both claimed CERB payments from the CRA this year. Jerry works at a fast food restaurant that was shut for four months, during which he claimed the maximum \$8,000 in CERB payments.

He expects to make \$2,000 in the rest of the year. That means his total annual income for 2020, \$10,000, was below the basic personal amount. Effectively, Jerry would pay no taxes.

Samantha, however, owns an events management company. She expects to make no income for the rest of the year and has already claimed \$8,000 in the maximum CERB payments. However, a major event she hosted in January earned her \$100,000. Her marginal tax rate is 26%, which means she will owe \$2,080 on her CERB payments to the CRA next year.

How to cover the taxes

If you've earned income besides CERB this year and expect to pay taxes next year, it's best to set some money aside. However, you could quickly cover your tax liability by

investing your CERB payments.

A well-timed investment in a robust company could more than cover your tax liability next year. Several stocks have surged during this crisis. Some have doubled in value. That sort of return could cover even the highest margin tax rate of 33% on any income you've made this year.

Dollarama ([TSX:DOL](#)) is a great example. [An essential business](#), Dollarama stores remained open throughout the lockdown. The stock price surged 35% over the past four months. Samantha from our example would have had to invest just \$6,000 in Dollarama stock in late-March to cover her tax liability for the CERB payments.

Dollarama is still trading at a reasonably attractive valuation. The price-to-earnings ratio is 27.8, while the price-to-free cash flow ratio is 110. That's a reasonable valuation for a company growing at this pace and seemingly immune to the pandemic's economic effects.

Foolish takeaway

How much tax you owe on your CERB payments depends on your total income in 2020. However, you can cover your liability early by investing in top-notch growth stocks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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2. Koyfin
3. Msn
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