Canada Revenue Agency: CERB Is Taxable But This Payment Is Tax-Free!

Description

The Canada Revenue Agency (CRA) gives eligible Canadians up to $12,000 in CERB payments, but it will take part of the money back when tax time arrives next year.

Canada Revenue Agency: CERB total

The CRA paid out more than $60 billion to nearly 8.5 million CERB applicants in recent months. The size and scale of the CERB program indicates the severity of the pandemic lockdown.

Individuals and families across the country managed to pay rent, mortgages, and put food on the table as a result of the assistance. The CRA recently expanded the program by eight weeks to give people more time to find work, but CERB is now scheduled to end in September.

Applications can be made up to December 2 for any of the seven periods running from March 15 to October 3. Eligible CERB recipients receive $500 per week, or $2,000 per period for a maximum of six periods.

Canada Revenue Agency: CERB taxes

CERB is not a tax-free grant. It is income designed to replace unemployment insurance payments through the pandemic crisis. CERB recipients must report the CERB payments on their 2020 income tax filing as income. Depending on the total income for the year, a good chunk of the CERB payment could be payable back to the CRA as income tax.

Ideally, CERB recipients set part of the payment aside to cover the tax hit next year.

What amount is needed for the CRA?

With so much uncertainty around when regular work will return, it is difficult to know exactly how much of the CERB will be due as tax. However, most people’s effective tax rate falls in the 15-30% range. As such, accountants and personal finance professionals suggest putting about 20% of the CERB aside for the CRA next year.

Canada Revenue Agency: Tax-Free income payments

One way to legally get tax-free income is to earn it inside a Tax-Free Savings Account (TFSA). The government set up the TFSA in 2009, and the cumulative contribution limit grows every year. In 2020, Canadian residents have up to $69,500 in TFSA contribution space.

A popular strategy involves owning top-quality dividend stocks inside the TFSA. The distributions can be used to buy more shares during times when you don't need to remove the payouts. This helps grow the portfolio through a powerful compounding process.

The CRA does not tax any gains that occur inside the TFSA. This means 100% of the profits on the investments can go straight into your pocket!

Best TFSA stocks

The best stocks to buy in a TFSA are ones that have long track records of dividend growth supported by rising revenue and higher earnings. Many of the top dividend stocks in the **TSX Index** now trade at attractive prices an offer above-average dividend yields.

Royal Bank of Canada is a good example. The company is Canada's largest financial institution and one of the top 15 in the world by market capitalization.

Royal Bank continues to earn strong profits in the current environment and has survived every major financial crisis in the past 150 years.

The stock provides a 4.5% dividend yield.

Long-term investors have done well. Investors who bought $10,000 in Royal Bank shares just 20 years ago would have nearly $100,000 today with the dividends reinvested.

The bottom line

The TFSA operates as a tax-free emergency fund in tough times. It also serves as a great retirement portfolio to complement CPP and OAS down the road.

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