CRA Cash: Turn a $400 GST/HST Tax Break Into $10,000

Description

The goods and services tax/harmonized sales tax (GST/HST) credit is a tax-free quarterly payment that aims to help individuals and families with low and modest incomes. This tax credit will offset a part or the entire GST or HST amount that they pay.

Canadians pay a GST/HST on most of the items they purchase. So, if you earn below a certain income range, you may be eligible for this tax credit. Canada has a progressive tax system, which means your tax rates depend on your income. If you earn more money, you will be taxed at a higher rate.

So, the GST/HST tax credit helps to distribute wealth and reduce income inequality. This tax rebate is extremely critical for low-income households and is not considered as part of the taxable income by the Canada Revenue Agency (CRA).

Amid the COVID-19 pandemic, the CRA and the Canadian government have provided respite to several low-income households by increasing the GST/HST tax credit. Canadians who qualify for the GST/HST credit and who have filed a 2018 tax return would have received an extra payment amount in April 2020.

This one-time credit amount depends on your family net income and will increase from $443 to $886 if you are single. Further, if you are married, you would have received $1,160, which is up from $580.

How to use this CRA tax break

If you have enough savings and are not dependent on the above-mentioned tax break during these uncertain times, it makes sense to invest the amount in a low-cost index fund such as the **Vanguard S&P 500 Index ETF** (TSX:VFV).

Index funds are the ideal vehicle to park your investments and see them grow over the long term. Most investors do not have the time or expertise to pick individual stocks, which makes passive investing even more important. While equity markets remain volatile, they have created massive wealth over the past decades.

Warren Buffett has also been a vocal advocate of index fund investing. He famously said, "A low-cost index fund is the most sensible equity investment for the great majority of investors. By periodically investing in an index fund, the know-nothing investor can actually out-perform most investment professionals."

Further, with interest rates at record lows, equity investments are all the more attractive right now. Investing in the VFV Index ETF will give Canadians exposure to the 500 largest companies south of the border and it seeks to replicate the S&P 500.

The top five holdings of the ETF include tech giants such as **Microsoft**, **Apple**, **Amazon**, **Facebook**, and **Alphabet** that account for a cumulative 21.5% of VFV. The ETF is tech heavy with information technology accounting for 27.5% of the fund, followed by sectors such as health care, consumer discretionary, communication services, and financials at 14.7%, 10.8%, 10.8%, and 10%, respectively.

The Foolish takeaway

We can see that investors get a diversified exposure to companies across sectors, which drastically reduces risk. The VFV has outperformed most Canadian ETFs since it was launched back in 2012. Since inception, the VFV ETF has returned a massive 220% compared to the **iShares S&P/TSX 60 ETF** returns of just 43%.

The VFF also pays a dividend yield of 1.5%, which means it will take approximately 20 years to convert $400 into $10,000 after accounting for dividend re-investments, considering historical returns.

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