The CERB Is About to End, But You Still Need to Pay Taxes to the CRA!

Description

The CERB (Canada Emergency Response Benefit) was introduced earlier this year to help millions of Canadians impacted by the COVID-19 pandemic. As businesses were shut, unemployment rates in Canada spiked to unprecedented levels.

The Canada Revenue Agency (CRA) pays $500/week to eligible Canadians impacted by COVID-19 for a period of up to 28 weeks, indicating a total payout of $14,000 under the CERB. The CRA has, in fact, paid $76.34 billion under the CERB program to date and has processed 26.25 million applicants.

However, Canadians should also note that while the CERB is coming to an end later this month, it is also taxable by the CRA, and you need to report it as part of your income while filing taxes next year.

How much tax will you pay on the CERB?

As mentioned earlier, the CRA will not withhold taxes on CERB payouts. So, what is the tax rate on these benefit payments? It actually depends on your total earnings in 2020, which means you need to calculate your employment income, the total CERB payout received, as well as income from other sources.

Let’s take a simple example for calculation purposes and assume you only have employment income and the CERB payments for 2020. If you are a resident of Ontario and earned $44,000 in 2020 and received $14,000 in CERB payments, the total income stands at $58,000.

This indicates you will fall under two different federal and provincial tax brackets. The federal tax rate for the first $48,535 earned is 15%, while Ontario’s provincial tax rate for the first $44,740 earned is 5.05%. So, you will be taxed 20.05% for the first $44,740.

For the next $3,795, the federal tax remains 15%, while the provincial tax rises to 9.15%. For the remaining $9,465, the federal tax is 20.5%, while the provincial tax is 9.15%. So, the total taxes paid on an income of $58,000 amounts to $12,693.24.

To determine the taxes on your CERB, you need to use the highest marginal tax rate of 29.65%, which means you pay $2,806.37 for the federal tax benefit. This is a simple way to calculate your tax and does not include any tax deductions such as the RRSP.

Earn tax-free income in a TFSA

While taxes are part of daily life, you can earn tax-free income if you hold investments under a TFSA (Tax-Free Savings Account). The TFSA is a registered account where any interest, dividends, or capital gains are exempt from CRA taxes on the withdrawal.

The TFSA is an ideal account to hold dividend stocks such as **Canadian Utilities** (TSX:CU). The utility giant has a recession-proof business model and has survived multiple economic slowdowns.

Canadian Utilities has increased dividends for 48 consecutive years and has a forward yield of a tasty 5.5%. This means a $10,000 investment in the stock will generate $550 in annual dividend payments.

The diversified energy infrastructure company provides essential services and generates 95% of sales from regulated utilities and the rest from long-term contracted assets. The company has over $20 billion in assets and its rate-regulated business ensures low volatility with stable cash flows, making a dividend cut unlikely.

If Canadian Utilities increases dividend payouts at an annual rate of 5%, your dividends will rise close to $1,400 at the end of two decades, after accounting for re-investments. Investors will also benefit from long-term capital appreciation and have an opportunity to create significant wealth.

CATEGORY

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