



## CRA Warning: Pay Your Taxes on the CERB!

### Description

The Canada Revenue Agency (CRA) might have helped you through the lockdown if you lost your job due to COVID-19. The federal government initially announced the Canada Emergency Response Benefit (CERB) that would see qualifying Canadians receive \$2,000 per month over 16 weeks. After two extensions, the program's total length became 28 weeks, and Canadians can receive up to \$14,000 through the program.

The CERB is a taxable benefit. The CRA did not deduct the taxes while disbursing the payments. It means that the payment will count as part of your taxable income for the 2020 tax year. If you received any CERB money without qualifying for it, you can repay it to the CRA and avoid paying taxes on the mistakenly received funds.

However, if you truly needed the funds and qualified for it while receiving the money, the CRA will calculate your taxes with the CERB cash you've received.

## What are your estimated taxes for 2020?

When you calculate your taxes, you need to remember that you have to pay provincial and federal tax. The federal tax is 15% of the first \$48,535 of your taxable income for the 2020 tax year. With the pandemic, you might not have earned a lot of money in 2020.

Suppose you receive a full \$14,000 over 28 weeks through CERB, you earned \$31,000 besides the CERB before you lost your job for the 2020 tax period, and you live in Manitoba. Your total taxable income will be \$45,000, and you will have to pay \$6,750 in provincial taxes.

The provincial tax for your taxable income will be 10.8% for the first \$33,389 and 12.75% on the next \$38,775. It means your provincial tax will come around to \$5,086. It means that the total tax bill you can estimate in the scenario above is \$11,836. Considering the loss of income due to COVID-19, that can be a hefty tax bill.

## Offset your tax bill through your TFSA

It is crucial to estimate your tax preemptively so that you can allocate enough funds to pay off the CRA. The next tax season is several months away, and every dollar you set aside can come in handy to pay off your tax bill. If you have any savings as cash that you did not need to touch because of CERB, you can use it to generate some passive income that can offset the tax bill.

Consider investing the money in a stock like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)). Fortis is a utility company that is a favourite [recession-resistant stock](#) I like to recommend. It may be boring in terms of its market movements. Still, it provides its investors with reliable dividend payouts that it has been increasing for almost 50 years. It means the stock does not just pay you — it can keep increasing its payouts to keep pace with inflation in the long run.

At writing, the stock is trading for \$52.86 per share, and it has a juicy 3.61% dividend yield. Allocating some of your funds to Fortis shares and holding the stock in your TFSA can help you earn tax-free passive income that you can use to offset the tax bill. For instance, if you invest \$30,000 in Fortis shares, it can provide you with \$1,083 per year. While it may be a far cry from the total tax bill, each dollar you can save will help you in the long run.

## Foolish takeaway

Two things in life are certain: death and taxes. While the CRA might have helped out a lot through the financial aid, it will come knocking to collect taxes in the next tax season. I would advise preparing a portfolio of [dividend income stocks](#) in your TFSA to help offset the overall tax bill through tax-free passive income. Fortis could be an ideal stock to begin building such a portfolio.

### CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:FTS (Fortis Inc.)

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**Date**

2025/08/30

**Date Created**

2020/09/18

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