



CRB News: The CRA Will Deduct 10% Tax on the \$500 Recovery Benefits

Description

When the Justin Trudeau government announced the new recovery benefits, it upped the benefit amount from the proposed \$1,600 to \$2,000 a month. This way, it brought new benefits in line with the Canada Emergency Response benefit (CERB). The Canada Revenue Agency (CRA) will handle three new benefits: Canada Recovery Benefit (CRB), Canada Recovery Caregiving Benefit (CRCB), and the Canada Recovery Sickness Benefit (CRSB).

As per the government announcement, the three benefits will give \$500 a week, or \$2,000 a month. There's a catch, however. The CRA shocked Canadians this week when it revealed that a 10% tax will be deducted at source from the benefit payment.

The tax treatment of the CRB

It was a given that the CRA COVID-19 benefits are taxable. But Canadians were expecting to foot the tax bill on the benefits when they file their 2020 tax returns. They were right to assume that because when the CRA distributed the \$2,000 CERB, it did not deduct tax at source.

But with the new recovery benefits, the CRA will give you \$450 a week, or \$1,800 a month, in CRB and CRCB. For CRSB, you can get a maximum of \$900.

Wait! The 10% tax deduction doesn't end here. The \$1,800 monthly CRB will be added to your 2020 taxable income along with the \$2,000 monthly CERB. You will pay income tax on whatever federal and territorial [tax bracket](#) your income falls.

Nunavut province has the lowest tax rate. For instance, John earned around \$15,000 in working income in 2020, claimed the maximum CERB of \$14,000, and \$5,400 in CRB for October to December. His 2020 taxable income would add up to \$34,400. As he stays in Nunavut, his tax rate would be 19% (15% federal tax + 4% Nunavut province tax) on his taxable income.

However, he can apply the various [tax breaks the CRA offers](#) and reduce his taxable income and his 2020 tax bill.

Wait! The CRA has another year-end surprise

The CRA will not only tax you on the benefit payments during your 2020 returns filing but also claw back some of the CRB amounts under certain circumstances.

If your annual net income exceeds \$38,000 (which includes CERB, CRCB, and CRSB payments), it will take back some portion of your CRB. The repayment will happen at the rate of \$0.5 for every dollar earned above \$38,000.

Taking the above example of John, he earned \$29,000 net income after deducting CRB payments. This means the CRA won't claw back his CRB payments. If his net income was \$40,000, then the CRA would have taken back \$1,000 ($\$0.5 \times \$2,000$ surplus income) CRB payment by adding this amount to his tax bill.

You can still benefit from the CRB

Don't be afraid of taxes. You can make your CRB earn its tax amount and also give you an additional benefit. All you have to do is invest \$100 a week in a growth stock that fetches over 20% returns. And do so through your Tax-Free Savings Account (TFSA) to avoid paying taxes on these returns.

One such stock is **Cargojet** ([TSX:CJT](#)). Even before the pandemic, it's stock surged at a CAGR of 23% between 2015 and 2019. The pandemic accelerated its growth significantly. It saw a surge in cargo volumes due to e-commerce and medical equipment orders and grounding of passenger planes. To add to the many benefits, low oil prices have inflated its profit margins. In the second quarter, its revenue rose by 65% while its adjusted EBITDA rose by 143% year over year (YoY) to \$91 million, which equates to an EBITDA margin of 46.5%.

This scenario would continue for at least two to three years until air travel demand recovers, and passenger planes once again fly internationally. Cargojet stock has surged 86% year to date and is trading at 48 times its forward EPS. Even at such a high valuation, the stock can give double-digit returns in the next year or two.

Investor corner

If you had invested \$400 from your first CERB payment in Cargojet in April, you would have earned \$270 in your TFSA. This would take care of your tax bill for one month's CERB payment.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:CJT (Cargojet Inc.)

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3. Msn
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Date

2025/08/27

Date Created

2020/10/06

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