CRA: You May Not Like These 3 Things in the $2,000 CRB

Description

The Canada Revenue Agency (CRA) has unveiled the details of the $2,000 Canada Recovery Benefit (CRB). The CRB and Employment Insurance (EI) replaced the Canada Emergency Response Benefit (CERB) from September 27, but its application opens on October 12.

When the Justin Trudeau government passed the legislation for the new benefit, it stated that the CRB will give unemployed Canadians $500 a week for up to 26 weeks. But when the CRA unveiled more details on the eligibility and benefit amount, there were some unpleasant surprises.

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About the CRB

With the CRB, the CRA has addressed all the shortcomings of the CERB. It has made CRB more flexible by keeping the benefit period of two weeks instead of four weeks, as in the case of CERB. It has also extended CRB for a year. This means everyone has ample time to claim the benefit for all 26 weeks as and when they become eligible.

However, there are three things in the new $2,000 CRB that you may not like.

A penalty for refusing work

The problem with the CERB was that you lost the entire benefit if you earned more than $1,000 during the benefit period. Hence, people started refusing any work that paid them less than $2,000 a month. The CRA removed this shortcoming in the CRB. It is paying the new benefit even to those who returned to work, but their average weekly income reduced by 50%.

The CRA has also introduced a penalty for those who refuse to take up reasonable work offered to them. As a penalty, the CRA will reduce the CRB term by 10 weeks to just 16 weeks. Moreover, it will lock your CRB application window for 10 weeks, which means you can't apply for the benefit for the next 10 weeks.

The penalty will repeat if there is a second instance of refusing work.

The 10% tax on the $2,000 CRB amount

The CRA has also introduced a 10% tax, which it will deduct from your CRB amount. So, if you apply for a two-week period, you will get $900 ($1,000-10% tax of $100) per application. The CRB taxes don't end here. The $900 CRB will be added to your 2020 and 2021 taxable income, and you will pay personal income tax as per the tax bracket under which your annual income falls.

The calculation of the $38,000 annual income limit

For the CRB, the CRA has capped the annual income limit at $38,000. This means anyone who earned a monthly income of $3,000 is eligible for the $2,000 CRB. Your CRB amount reduces at the rate of $0.5 for every dollar earned above $38,000. If you earn $40,000 and claim $1,000 CRB in 2020, the CRA will take back your entire $1,000 CRB ($0.5*$2,000 surplus income).

This requirement is better than the CERB's $1,000 maximum income, but the catch is in the $38,000 calculation. This amount includes CRA's COVID-19 cash benefits — up to $14,000 from CERB, up to $13,000 from Canada Recovery Caregiving Benefit (CRCB), and up to $1,000 from Canada Recovery Sickness Benefit (CRSB). If you max out on the other three benefits and earn $10,000 in working income, the CRA would take away some or all of the CRB amount when you file your 2020 tax returns.

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You can still make the most of the CRB

Despite the above three unpleasant surprises, the CRB brings respite to millions of Canadians struggling to find a job. You can make the most of the $1,800 benefit amount after tax by investing in growth stocks. You can invest $400 from benefits payment every month in **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX). Invest through your Tax-Free Savings Account to avoid taxes on the investment income.

Descartes stock has grown at a CAGR of 20% in the last five years and surged 30% year to date. Its supply chain management business is resilient to an economic crisis. The pandemic has accelerated its revenue as the e-commerce boom has complicated the logistic and supply chain operations. The stock could continue to grow at a 20% CAGR in the mid-term. If you invest $400 in Descartes now, it could double in four to five years.

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