CRB Alert: The CRA Will Tax Your COVID-19 Benefit!

Description

The Justin Trudeau government and the Canada Revenue Agency introduced four new COVID-19 benefits to replace the CERB (Canada Emergency Response Benefit). The CERB was introduced in April and discontinued last month.

One such benefit is the CRB (Canada Recovery Benefit). It provides $500 per week to self-employed Canadians who have stopped working or had their income reduced by at least 50% due to COVID-19. The CRB applications will start on October 12, but the Canada Revenue Agency shocked eligible recipients after it claimed it would levy a 10% tax deducted at source.

While the CRB benefits were always taxable, Canadians were expected to foot the tax bill when they file their 2020 returns next year. The majority of the recipients assumed that they will receive $2,000 a month in benefit payments, similar to the CERB payments that were distributed earlier this year. However, the new development suggests the CRA will give you $450 a week or $1,800 a month via the CRB.

The CRA will also levy a 10% tax on CRSB (Canada Recovery Sickness Benefit) payouts, which means the maximum you are eligible to receive is $900 for a two-week period.

How much tax do you owe the CRA?

The $1,800/month CRB payout should be added to your taxable income for 2020. So, if you live in Ontario and have earned $46,000 in 2020 via self-employment and an additional $6,000 via the CERB and $6,000 by CRB, your total income stands at $58,000.

According to CRA's criteria, you will fall under two different federal and provincial tax brackets. For the first $44,740 that you have earned, Ontario's provincial tax rate is 5.05%. Now, the federal tax rate for the first $48,535 is 15%. So, you will pay a tax of 20.05% for the first $44,740, which amounts to $8,970.37.

For the next $3,795, the federal tax rate stays at 15%, while the provincial tax rate increases to 9.15%.

So, you will pay $916.5 in taxes for the second income block. For the final block of $9,465, the provincial tax rate is 9.15%, while federal tax rates increase to 20.5%. So, you will pay a tax of $2,806.37, bringing the total tax liability to $12,693.24.

Taxpayers should note that this is a very basic computation and does not account for any tax breaks, such as RRSP deductions.

Generate tax-free income under a TFSA

While the CRB payouts are taxable by the CRA, one way to generate tax-free income is by holding dividend stocks such as **Fortis** (TSX:FTS)(NYSE:FTS) in a TFSA (Tax-Free Savings Account).

Any withdrawal from the TFSA in the form of capital gains, interests, or dividends are exempt from CRA taxes, making the registered account an ideal one to hold quality dividend stocks.

Fortis is a Dividend Aristocrat and is one of the largest utility companies in North America. Fortis stock is currently trading at $55, indicating a dividend yield of 3.7%. So, if you invest $6,000 in your TFSA into Fortis, you can generate over $220 in tax-free annual dividend payments.

Fortis has increased its capital-investment plan for 2021 to 2025 to $19.6 billion — an increase of $800 million compared with its prior-year plan. This includes a $5.1 billion investment at ITC for electric transmission infrastructure and $4.4 billion in natural gas and electric infrastructure.

Further, the stock has gained 50% in the last five years and more than doubled in the last decade. It has generated double-digit returns after you account for its tasty dividend yield, making Fortis a top long-term bet.

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