



CRA Cash Benefits: Do Your 2020 Tax Planning Now to Avoid No-Cash April

Description

The Canada Revenue Agency (CRA) introduced cash benefits to protect Canadians from being cash-strapped in the COVID-19 pandemic. The most popular benefit was the \$2,000 Canada Emergency Response Benefit (CERB), which covered every Canadian who was unemployed. In October, the CRA replaced this benefit with the Canada Recovery Benefit (CRB) and Employment Insurance (EI).

While these cash benefits are providing relief this year, they could leave you with a huge tax bill in April. Start your 2020 tax planning now to avoid a no cash April.

The tax implication of CRA cash benefits

If you received CRA COVID-19 cash benefits regularly since March 15, your 2020 taxable income will include \$14,000 in CERB payments and \$5,400 in CRB payments. The CRB amount is lower than CERB, as the agency is deducting a 10% tax at the source. On top of CRA cash benefits, which sums up to \$19,400, your 2020 taxable income will include any other working income you earned this year.

The CRA gave CERB even if you earned less than \$1,000 in 14 consecutive days of the benefit period. It is giving CRB even if you are earning 50% of your average weekly income.

For instance, Wayne is a flight attendant from Ontario. He was earning \$3,000 a month, but he lost his job when the pandemic struck. He claims CRA cash benefits for the rest of the year and also earns around \$900 each month from part-time work from July-December.

Wayne's total taxable income for the 2020 tax year will sum up to \$30,800. He will have to pay a [15% federal tax](#) plus a 5.05% provincial tax on this amount. His tax bill will come above \$6,000. He can reduce this amount by claiming [various tax credits CRA offers](#), such as the personal amount and workers' compensation.

The CRA has added new tax breaks like Digital News Tax Credit and Canada Training Credit that will give you a refund on the amount you spend on digital news subscription and post-secondary education.

CRA cash benefits are temporary

By the end of 2020, you would have claimed CRB for six periods. If you continue claiming CRB next year, you will exhaust your 13-period benefit limit by the first week of April 2021. In April, you will be out of CRA cash benefits and will have to pay taxes on the benefits you claimed. And if you are still out of job, you will be cash-strapped.

You should start your 2020 tax planning while you are still getting cash benefits.

Do your 2020 tax planning now

The stock market has corrected from a six-month-long pandemic rally, which was fueled by the liquidity injected through CRA cash benefits. Set aside \$100 from your \$900 CRB payment every two-week period into your Registered Retirement Savings Plan (RRSP). You can deduct your \$600 RRSP contribution (for six periods) from your 2020 taxable income.

Invest this money in a good dividend stock like **RioCan REIT** ([TSX:REI-UN](#)), which is currently trading at the 2009 level. The stock is down 46%, which has inflated its dividend yield to 9.9%. The company pays dividends from the rental income it collects from its retail tenants. However, pandemic-driven lockdown closed many retail stores temporarily and permanently. Moreover, many retailers had difficulty paying rent.

In its recent third-quarter earnings, RioCan showed a recovery in rent collection to 93.4% from 73.3% in the previous quarter. The tenants are also repaying the deferred rent, which shows that its existing rental income is sufficient to pay the current annual dividend per share of \$1.44. This has eased concerns around possible dividend cuts. The reason why RioCan stock is still down is its occupancy rate, which has reduced to 96% from 97.2% in the previous year quarter.

Investor corner

As the economy recovers, RioCan stock will rise to its pre-pandemic level of \$27, representing an 80% upside. If you invest in RioCan now, it will convert your \$200 to \$420 in three years (\$60 in dividend income and \$160 in capital appreciation).

CATEGORY

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TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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