CRA Tax Update: The CERB, CRB, and EI — Are All 3 Taxable?

Description

The Canada Revenue Agency (CRA) has been very busy during the pandemic. It implemented several emergency measures announced by the government to help Canadians during this unprecedented time.

The COVID-19 pandemic resulted in the Canadian government distributing generous amounts to the public. The CRA implemented the Canada Emergency Response Benefit (CERB) a few weeks after the onset of the pandemic.

CERB ended on September 27, 2020, and it made way for alternatives like the Canada Recovery Benefit (CRB) and the new and improved Employment Insurance (EI) benefit. The alternatives were introduced to bridge the gap for people who still cannot earn money, despite the slowly reopening economies.

Millions of people continue to benefit from these funds. However, it's crucial to understand that the money you're receiving is not entirely tax-free.

Taxable benefits

The CERB program paid out $2,000 over four-week periods, translating to $500 per week. CRB is also paying $500 per week through $1,000 bi-weekly payments. The new and improved EI benefits will pay out as much as $573 per week to eligible Canadians.

If you think of these benefits as free money, you should think again. All three benefits are going to reflect in 2020's tax returns. The CRA will count all three as part of your taxable income for the 2020 income year.

Additionally, if the CRA finds out that you've been receiving the benefits without qualifying for them, the agency can take back the entire amount.

Earn tax-free income

If you want to earn tax-free passive income, you should know that it is possible. The Tax-Free Savings Account (TFSA) is a fantastic tool that you can use to earn tax-free income. It requires the prerequisite that you have money set aside to use as capital for investing in the right income-generating assets.

Any assets you store in your TFSA can grow tax-free. It means that any interest earned, capital gains, or dividend payouts from assets within your TFSA can grow over the years without incurring any taxes. You can even withdraw the amount from your TFSA without any early withdrawal penalties or charges.

A stock to consider

Ideally, the best way to use your TFSA to generate tax-free passive income is to use it to hold a portfolio of dividend-paying stocks. A stock you could consider as the foundation for such a portfolio is **Fortis** (TSX:FTS)(NYSE:FTS). The utility sector operator is a reliable dividend stock that provides its investors with consistently growing dividends each year.

Fortis is an ideal safety buy for investors looking to secure guaranteed returns on their investment. A staple investment for any portfolio, Fortis generates income through its utility operations throughout Canada, the U.S., and the Caribbean.

No matter how bad the economy gets, people still need their utilities. It means that the company can continue generating enough income to fund its dividend payouts to shareholders without suspending or decreasing its dividends.

Fortis is trading for $52.69 per share at writing. At its current valuation, the stock is paying its shareholders at a juicy 3.83% dividend yield.

Foolish takeaway

Two things in life are certain: death and taxes. You will need to pay your taxes on the government benefit programs like the CERB and CRB. The EI also accounts for part of your taxable income.

However, if you can create a decent portfolio of reliable dividend-paying stocks in your TFSA, you can earn substantial tax-free income. Fortis could be an ideal stock to begin building such a portfolio.

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