Yikes! The CRA Will Tax Both Your $2,000 CRB and CERB

Description

Nothing in life is free. The statement seems a bit twisted and cynical, but the more you learn about the world, the more you understand how true it is. And it also applies to the sweet CERB payment that millions of Canadians have benefitted from in the past and the CRB that people (who don't qualify for the EI) will be applying for.

The cost here is the tax implication that comes with both these benefit payments. And even if it might seem unfair to some, it's not. Taxes are one of the things that allowed the government to come through for its people in the first place. The government provided benefit payments, so people could survive (financially), despite losing their income source to the pandemic.

The CERB and CRB taxation

Though both of these incomes will be taxed, there is a difference. The CERB wasn't taxed at the source, and the CRA sent out the full $2,000 for the month to the eligible recipients. And when you are doing your taxes for the year, you will have to count it as your taxable income. It doesn't matter if you received just one month's CERB benefits or all the allowable periods.

The CRB *is* taxed at the source. The government withholds 10% of every CRB payment they release. Therefore they send out $900 instead of the approved $1,000 for two weeks. *However,* it doesn't mean that you don't have to account for it in your taxable income. You will add the amount you receive as your taxable income, and if the tax that the CRA withheld doesn't cover your tax obligation for the CRB payment, you will have to pay the difference.

And if you fall in a lower tax bracket, and the 10% that the government withheld is more than what you are obligated to pay, you may need to pay less tax.

TFSA wealth

If you have investment assets in your TFSA, you can lean on them for a tax-free income and manage your tax liability. Even if you had invested $5,000 in a conservative stock like **Fortis** (TSX:FTS)(NYSE:FTS) five years ago and chose to reinvest your dividends, your position would now be worth $8,000. That's enough to replace four months of tax-free CRB replacement.

If you don't have any investments, it might be a good idea to start as soon as you get back on your feet. Fortis offers a five-year (dividend adjusted) CAGR of 10.78%. Given the consistency of the company's growth and the strength of its revenues, if the company can maintain that pace for two decades, you can grow $1,000-a-year investments into a $70,000 nest egg.

Foolish takeaway

If you have received the CRA benefits (the CERB) in the past or are receiving them now (the CRB), you can't afford to forget your tax obligation. The benefit payments might beef up people's tax bills, but without these benefits, it would have been tough for people to survive if they lost their income due to the pandemic. This is one tax obligation that's totally worth it.

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