ALERT: CRA Says the $500/Week CRB Is Taxable!

Description

The CERB and CRB might seem very similar to each other, but if you look closely, they are very different. For one, the CERB was available for almost everyone, while the CRB is aimed towards a very narrow range of recipients. The bulk of the CERB's responsibility is picked up by the EI, and people who don't qualify for the EI benefits are the primary targets of the CRB benefit.

But there are other differences as well. And one of them is taxation.

The taxable CRB

Both the CERB and CRB are taxable. The difference is that the CERB was paid in full to the recipients, while 10% of the CRB is taxed at the source. So, instead of receiving $500 for a week, people get $450. While it's a good idea for the CRA, since it can replenish part of its reserve instead of waiting for the next year for all payments to come in, it's also a bit confusing for the recipients.

Even if it's taxed at the source, it doesn't mean that the CRB is entirely tax-free. It's still taxable income and should be calculated for your tax obligation. It's added on top of whatever income you've earned for the year and calculated based on your marginal tax rate.

The tax you owe to the CRA for the CRB payment you have received may be more than the 10% the government withheld at the source. In that case, you will *have* to pay the remaining tax you owe on your CRB payment. It can also go the other way around. The 10% that the CRA withholds might be more than what you owe. In that case, your tax obligation might be reduced.

There is another stipulation. If your net income is over $38,000, you will have to pay the government back $0.5 of the benefit payment for every dollar you earn above the $38,000 threshold.

Augmenting your income with dividends

There are other ways to augment your reduced income instead of applying for the CRB benefits, but that would require you to invest a hefty sum in a high-yield dividend stock. It might not be an option now, but that's something you should start working towards. One stock you might want to consider is **Inovalis REIT** (TSX:INO.UN). This European-focused REIT is currently offering a powerful 10.5% yield.

If you can divert just $20,000 from your TFSA funds to this company, you can start a monthly income of $175 through the company's dividends. That might not be able to replace your primary income, but it can take care of some expenses. The best part about these dividends (apart from an awesome yield) is the payout ratio of 40.7%. A payout ratio this low, when the yield is this high, is rare in the real estate sector right now.

Foolish takeaway

A TFSA-based dividend income will be tax-free, and unless the company slashes its dividends to maintain a healthy payout ratio, the income can be depended upon. And even if it can't prevent you from applying for government benefits, it might reduce your dependability on them a bit. You may only need to take eight or 10 weeks instead of 12, because you are putting your dividend income aside.

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Date
2025/08/25
Date Created
2020/11/11
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